

THE DEVELOPMENT OF A FRAMEWORK FOR THE MANAGEMENT OF
SUPPLIERS AS PART OF PUBLIC PROCUREMENT MANAGEMENT AND SUPPLY
CHAIN MANAGEMENT PRACTICES IN DISTRICT MUNICIPALITIES OF THE
FREE STATE PROVINCE

by

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ABSTRACT

Public-sector procurement practices are the biggest single consumer of allocation in most countries. Procurement of the organs of state varies between 5% and 8% of the gross domestic product (GDP) in most industrialised countries (Ambe and Badenhorst-Weiss, 2012:244). During 2013/2014 the South African public sector spent R500 billion on goods, services and on construction work (National Treasury, RSA, 2015b:3). This indicates that public procurement fulfil a vital role in any country in that it has important economic and political implications. Therefore, the South African government has to ensure that public procurement processes are economical and efficient. Government procurement spending has created opportunities for Small, Medium and Micro-Enterprises (SMMEs) to grow the economy and create jobs.

In South Africa, the government uses a large share of its fiscus to procure goods, services and infrastructural needs from SMMEs suppliers for communities due to the developmental needs of the historical past. It is therefore an imperative to enhance the efficiency of supplier management as part of the procurement management and SCM (SCM) practices in all municipalities and for the purpose of this study in district municipalities of the Free State Province.

Since 1995, the South Africa government embarked upon financial management reforms, including reforms of procurement management systems to, amongst others, address the inefficiencies in government procurement practices, contract management and asset control, particularly in municipalities. Since the inception of these reforms all municipalities have been responsible for implementing the principles of the system of Supply Chain Management (SCM) to manage infrastructure, goods and services, including contracts awarded to SMMEs suppliers, in an effective manner.

This study shows that municipalities in the Free State Province have defaulted on timeous payment to their suppliers and other creditors when compared to other municipalities in other provinces. The challenge of late and non-payment of suppliers has had an adverse financial effect on municipalities, townships and rural businesses, as well as on youth and women-owned SMMEs. However, it was noted that the challenge of late and non-payment of the Free State SMME suppliers still persists, which has a ripple effect on the township and rural business, as well as on youth and woman-owned SMMEs. It is now spreading to the communities. In this

regard most of the municipalities in the Free State Province fell behind with their payments for bulk purchases of electricity and water to Eskom by R2,5 billion and water boards by R2,5 billion outstanding on 30 June 2017. In addition, the Auditor-General (AGSA) cautioned that the continued disregard for procurement processes in municipalities of the Free State resulted in irregular expenditure that created an environment open to misappropriation, wastage and the abuse of public funds. The appointment of contractors and suppliers without following the competitive bidding process resulted in irregular expenditure in most of the municipalities in the Free State Province (AGSA, RSA, 2017:55-56). Thus, one could argue that most municipalities of the Free State disregard SCM policies and procedures that resulted in non-payment or late payment to suppliers and irregular expenditure.

The aim of this study was to promote effective procurement and SCM practices positively by developing a framework for the management of suppliers as part of public procurement and SCM practices in district municipalities of the Free State Province. The proposed framework, provides a coherent and holistic step by step approach by identifying key components and criteria required to promote and improve the management of suppliers as part of public procurement management and SCM practices in district municipalities and affiliated local municipalities of the Free State Province in an effective manner. The following elements are emphasised in the proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province, namely supplier selection, supplier relationship management, supplier performance evaluation and certification and supplier development. Each of these elements are influenced by particular factors.

In addition to the proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province, the following was recommended to improve the management of suppliers as part of public procurement management and SCM practices. The accounting officer of all district municipalities of the Free State Province and affiliated local municipalities must ensure that all money owed by the municipality must be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. All district municipalities of the Free State Province and affiliated local municipalities must give effect to the requirements of the *Municipal Financial Management Act (MFMA)* (RSA, 2003), the *Preferential Procurement Policy Framework Act (PPPFA)* (RSA, 2000), and the amended

Preferential Procurement Regulations (PPR) (RSA, 2017a) to promote the effective management of procurement and SCM systems. All district municipalities of the Free State Province and affiliated local municipalities must plan for all their procurement and SCM needs during the strategic planning process (National Treasury, RSA, 2017a). The selection of suppliers should be managed in terms of the requirements of the Municipal SCM Regulation of the *MFMA* (RSA, 2005b) and National Treasury SCM Instruction Note 4A (RSA, 2016f), which require that price quotations be invited and accepted from prospective suppliers listed on the CSD (National Treasury, RSA, 2005b; National Treasury, RSA, 2016f). Provision should be made to select more previously disadvantaged female and disabled suppliers. The Municipal Public Accounts Committees (MPAC) must investigate tenders awarded to people working in the municipality.

Except for the above recommendations the following were also recommended; The skills levels of procurement officials need to be upgraded to enable them to implement procurement management practices effectively. Each municipality and municipal entity should have standard training programmes designed to empower SMMEs on procurement practices. Adequate monitoring and evaluation on municipal procurement management practices is critical to ensure appliance of *MFMA*, (RSA, 2003), National Treasury (RSA, 2005b) and other applicable Acts and regulations. Practitioners who are hired in the municipal procurement sections or SCM units should have proper procurement and SCM qualifications and experience. Procurement and SCM regulations, policies, delegations, and Codes of Conduct should be discussed quarterly amongst procurement management and practitioners. The skills levels of procurement officials need to be upgraded to enable them to deal with new SCM challenges.

DECLARATION OF INDEPENDENT WORK

DECLARATION WITH REGARD TO INDEPENDENT WORK

I, Mrs M J A Tshilo, identity number _____ and student number _____, do hereby declare that this research project submitted to the Central University of Technology, Free State for the Degree DOCTOR TECHNOLOGIAE: PUBLIC MANAGEMENT, is my own independent work and complies with the Code of Academic Integrity, as well as other relevant policies, procedures, rules and regulations of the Central University of Technology, Free State. It and has not been submitted before to any institution by myself or any other person in fulfilment (or partial fulfilment) of the requirements for the attainment of any qualification.



06 MAY 2019

SIGNATURE OF STUDENT

DATE

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GLOSSARY/LIST OF ABBREVIATIONS AND ACRONYMS

AGSA:	Auditor-General of South Africa
BACS:	Bank Automated Clearing System
BBBEE	Broad Based Black Economic Empowerment Act, 2003 (Act 53 of 2003)
BEE:	Black Economic Empowerment
BER:	Bureau for Economic Research
BRICS	Brazil, Russia, India, China and South Africa
BTO:	Budget and Treasury Office
CAG:	Comptroller and Auditor General
CBI:	Central Bureau of Investigation
CC:	Close corporate
CCI:	Competition Commission of India
CIDB:	Construction Industry Development Board
CIPS:	Chartered Institute of Procurement & Supply
CSD:	Central Supplier Database
CPI:	Consumer Price Index
CoGTA:	Department of Co-operative Governance and Traditional Affairs
CFO:	Chief Finance Officer
CEO:	Chief Executive Officer
CPPP:	Central Public Procurement Portal
CUT:	Central University of Technology
CVC:	Central Vigilance Commission
DFPR:	Delegation of Financial Power Rules
DGS&D:	Directorate General of Supplies and Disposal
DoRA:	Division of Revenue Act
DBSA:	Development Bank of Southern Africa
EDI:	Electronic Data Interchange
EFT:	Electronic Fund Transfer
EME:	Exempted Micro-Enterprise
ERP:	Enterprise Resource Planning
ESI:	Early Supplier Involvement
FFC:	Finance and Fiscal Commission
GDP:	Gross Domestic Product

GFRs:	General Financial Rules
GEPF:	Government Employees Pension Fund
GPA:	Government Procurement Agreement
GPL:	Government Procurement Law
GeM:	Government e-Marketing
ICG:	International Commerce Group
IDMP:	Integrated Demand Management Plan
IDP:	Integrated Development Plan
IRBA:	Independent Regulatory Board for Auditors
ISO:	International Organisation for Standardization
IYM:	In-Year Management, Monitoring and Reporting System for Local Government
JCPAR:	Joint Country Procurement Assessment Review
JIT	Just-In-Time
LED:	Local Economic Development
LTSM:	Learner Support Material
MSE:	Medium Small Enterprise
MEC:	Member of the Executive Council
MEP:	Ministry of Environmental Protection
MFMA:	Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003)
MFPFA:	Municipal Fiscal Powers and Functions Act (MFPFA), 2007 (Act 12 of 2007)
MMM:	Mangaung Metropolitan Municipality
MOHURD:	Ministry of Housing and Urban Development
MOST:	Ministry of Science and Technology
MPAC:	Municipal Public Accounts Committee
MSA:	Local Government Municipal Structures Act of 1998 (Act 117 of 1998)
MSA 2000:	Local Government: Municipal Systems Act of 2000 (Act 32 of 2000)
MTEF:	Medium Term Expenditure Framework
NCOP:	National Council of Provinces
NYDA:	National Youth Development Agency
NDRC:	National Development and Reform Commissions
OCPO:	Office of The Chief Procurement Officer
OLGA:	<i>Organised Local Government Act (OLGA), 1997 (Act 52 of 1997)</i>

PAYE:	Pay as You Earn
PGCS:	Procurement of Goods, Construction and Services
PGDP:	Provincial Growth and Development Plan
PPC:	Public Procurement Centres
PPD:	Procurement Policy Division
PPP:	Public-Private Partnership
PPR:	Preferential Procurement Regulations
PPPFA:	Preferential Procurement Policy Framework Act
PR Councillor:	Proportional Representative Councillor
PWD:	Public Works Department
OCPO:	Office of the Chief Procurement Officer (National Treasury)
QSE:	Qualifying Small Enterprise
RDP:	Reconstruction and Development Programme
RFQ:	Request for Quotations
SALGA:	South African Local Government Association
SARS:	South African Revenue Services
SAMAF:	South African Micro-Finance Apex Fund
SAMDI:	South African Management Development Institute
SANAS:	South African National Accreditation System
SAP	Systems, Applications and Products
SCM:	SCM
SCOPA:	Standing Committee on Public Accounts
SDBIP:	Service Delivery and Budget Implementation Plan
SEDA:	Small Enterprise Development Agency
SEFA:	Small Enterprise Finance Agency
SMMEs:	Small, Medium and Micro-Enterprises
SOE:	State Owned Enterprises
TBL:	Tendering and Bidding Law
TCC:	Tax Clearance Certificates
TCO:	Total Cost of Ownership
TCS:	Tax Compliance Status
TIA:	Technology and Innovation Agency
TQM:	Total Quality Management

UNCITRAL: United Nations Commission for the International Trade Law's Model
UNESCAP: United Nations Economic and Social Commission for Asia and the Pacific
VRIN: Valuable, Rare, Inimitable, and Non-substitutable
WC: Ward Committee
WPLG: White Paper on Local Government
WTO: World Trade Organisation

LIST OF ANNEXURES

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CHAPTER ONE: INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION AND BACKGROUND

Public procurement varies between 5% and 8% of the gross domestic product (GDP) in most industrialised countries. The government is the largest single buyer of goods in most countries, while public procurement is the sheer volume of funds channelled through government procurement processes. This indicates that public procurement fulfils a vital role in any country in that it has important economic and political implications. Therefore, government has to ensure that public procurement processes are economical and efficient (Ambe and Badenhorst-Weiss, 2012:244).

According to Moeti (2014:139-141), the goods and services acquired by government represent, on the one hand, a substantial amount of public resources spent and, on the other hand, a substantial source of income to private service providers. Moeti (2014:139-141) further states that it is required that measures be put in place to ensure that government institutions receive the best possible supply of goods and services at the most economical price, at the same time ensuring that potential service providers such as Small, Medium and Micro-Enterprises (SMMEs) are afforded the opportunity to compete for contracts on a fair and equitable basis to redress past discrimination. Zheng, Walker and Harland (in Antonites and Truter 2010:3) emphasise the importance of public procurement and the role it plays in the development of Small, Medium and Micro-Enterprises (SMMEs) and ultimately the South African country's economy and society as a whole.

According to Kuye, Thornhill and Fourie (2002:101) an approach of modernising, financial management processes of the public sector of which municipalities cannot be excluded was introduced to ensure effective use of public resources and to speed up the process of service delivery. Antonites and Truter (2010:20) state that although a new financial management system which includes a new procurement and asset disposal system based on SCM was introduced in the South African public sector during 2003, municipalities need to reassess the situation within their procurement processes and take some steps to improve their procurement processes on a continuous basis. Such steps should include the enforcement of shorter payment cycles to SMMEs. The Department of Planning, Monitoring and Evaluation (DPME), (RSA, 2012:1) states that one of the challenges pertaining to SMMEs is the late or non-payment of suppliers by municipalities, which seriously affects the sustainability of SMMEs. In the light

of the above, this study seeks to develop a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province.

1.2 STATUTORY LEGISLATIVE FRAMEWORK AND POLICIES FOR PUBLIC PROCUREMENT AND SUPPLY CHAIN MANAGEMENT (SCM)

Chapter 7 of the *Constitution of the Republic of South Africa, 1996* (hereafter referred to as the *Constitution, RSA, 1996*) makes provision for the objects of local government, the development duties of municipalities, the categories of municipalities and the powers and duties of municipalities. Section 152 of the *Constitution (RSA, 1996)* provides that the municipality must strive within its financial and administrative capacity to achieve the following:

- the provision of democratic and accountable government for local communities;
- the provision of services to communities in a sustainable manner;
- the promotion of social and economic development;
- the promotion of a safe and healthy environment; and
- to ensure the involvement of communities and community organisations in matters of local government.

According to Bolton (2016:10) Section 217(1) of the *Constitution (RSA, 1996)* provides that contracts for good or services must be fair, equitable, transparent, competitive and cost-effective. Section 217(2) of the *Constitution (RSA, 1996)* provides in Subsection (1) that it does not prevent the organs of state 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, disadvantaged by unfair discrimination. Section 217 (3) of the *Constitution (RSA, 1996)* further provides that national legislation must prescribe a framework within which the preference policy may be implemented.

Section 80 of the *Local Government: Municipal System Act (MSA), Act 32 of 2000* (hereafter referred to as *MSA, RSA, 2000*) makes provision for services through service delivery agreements with external mechanisms, while Section 81 of the *MSA (RSA, 2000)* makes provision for the responsibilities when a municipalities provide services through service-

delivery agreements with external mechanisms. The service- delivery agreements involving competitive bidding is set out in Section 83 of the *MSA* (RSA 2000). Section 83 of the *MSA* (RSA, 2000) further provides that if the municipality decides to provide a municipal service through a service delivery agreement with any institution or entity or any person, it must select the service provider through a selection process. In this regard, Chapter 11 of the *Local Government: Municipal Finance Management Act (MFMA)*, Act 56 of 2003 (hereafter referred to as *MFMA*, RSA 2003) provides that all prospective service providers should have equal and simultaneous access to information relevant to the bidding process. Section 111 of the *MFMA* (RSA, 2003) provides that every municipality and municipal entity must have and implement a SCM management policy that gives effect to the *MFMA* (RSA 2003). Section 112(1) of the *MFMA* (RSA, 2003) also if the SCM management policy of the municipality must be fair, equitable, transparent, competitive and cost effective. Section 117 of the *MFMA* (RSA, 2003) provides that no Councillor of any municipality may be a member of a municipal bid committee or any other committee evaluating or approving tenders, quotations, contracts or other bids, and may not even attend any such meeting as an observer. The National Treasury (RSA: 2005b) provides in Regulation 4 that the Municipal council must enforce reasonable, cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of SCM management practices.

In terms of Section 2(1) of the Preferential Procurement Policy Framework Act (*PPPFA*, 2000) (Hereafter referred to as *PPPFA*, RSA, 2000), the framework is based on a preference point system that provides that contracts must be awarded to the bidder with the highest point score. Point scores are to be awarded for price, meeting social objectives specified in the Act. For contract worth over R500 000, a maximum of ten (10) points can be awarded to a bidder for meeting social objectives, provided that, that bid is the lowest acceptable tender and scores 90 points for price. Contract worth R500 000 or less, a maximum of 20 points can be awarded to a bidder for meeting social objectives, provided that the bid is the lowest acceptable tender and as such scores 80 points for price. The contract must be awarded to the tenderer (bidder) who scores the highest combined points for price and meeting social objectives, unless factors such as experience and expertise must be considered for purposes of quality assurance (Moeti, 2014:146-147; Fourie 2018:730). The statutory, legislative framework and policy directives of procurement and SCM was discussed in more detail in Chapter two of this study.

1.3 AN OVERVIEW OF PUBLIC PROCUREMENT IN SOUTH AFRICA CONTEXT

Since 1995, the procurement reforms in government were directed at two broad focus areas, namely the promotion of principles of good governance and the introduction of a preference system to give effect to certain socio-economic objectives (National Treasury, RSA, 2003a:5). The two reforms in public procurement relate to the decentralisation of the process of procurement through tendering; secondly, it entails the introduction of a new system of procurement and asset disposal that are based on SCM principles. The new system of procurement and asset disposal based on SCM principles by National Treasury, which integrates demand management, acquisition management, logistics management, disposal management, SCM performance evaluation and control was introduced during 2003 (Moeti, 2014:148-149; Ambe and Badenhorst-Weiss, 2012:245).

The above reforms were embedded in Section 112 of the *MFMA* (RSA, 2003) and Section 76(4)(c) of the *Public Finance Management Act, 1999* (Act 1 of 1999) (RSA, 1999) (hereafter refer to as *PFMA*, RSA, 1999) and the *PPPFA* (RSA, 2000). The procurement reform processes were further supported by the introduction of a number of legislative measures, including the adoption of the *National Small Business Act, 1996* (Act 102 of 1996), and the *National Small Business Amendment Act of 2004*. Ponte, Roberts and Van Sittert (in Antonites and Truter, 2010:2) argue that although the South African government implements specific statutory legislative frameworks such as the *National Small Business Act, 1996*, and the *National Small Business Amendment Act, 2004*, as well as the *Broad Based Black Economic Empowerment Act (BBBEEA, Act 53 of 2003)* (RSA, 2003) to promote increased procurement sourcing from SMMEs, there is no evidence of significant growth of SMMEs in some regions.

During 2001, the National Treasury, in cooperation with the World Bank completed a Joint Country Procurement Assessment Review (CPAR), which assessed the procurement practices throughout the public sector. Certain shortcomings with the public procurement practices relating to the governance, interpretation and implementation of the *PPPFA* (RSA, 2000) and its applicable regulations. Furthermore, the public procurement systems and provisioning were fragmented in that tender boards were responsible for procurement, while provisioning was prescribed by the norms and standards in the logistic systems driven by the National Treasury. The logistics system as part of assets management was also questioned because of a lack of proper handling of movable assets in the public sector (Ambe and Badenhorst-Weiss, 2012:245-246).

In the light of the above shortcomings, during 2003, a new procurement and asset disposal system based on SCM principles was introduced in the South African public sector, in conjunction with provincial treasuries, to replace the outdated procurement and provisional practices in municipalities (Bizana, Naude and Ambe, 2015:668).

SAMDI (RSA, 2004:9) avers that the aim of the new system of SCM is to add value at each stage of the public procurement process, from the demand of goods or services to their acquisition, managing the logistics process and the disposal of obsolete assets.

1.4 MUNICIPAL PROCUREMENT MANAGEMENT PRACTICES

A good starting point for the purpose of this study is to establish a common understanding of municipal procurement management practices and SCM. According to Odhiambo and Kamau (in Dlamini and Ambe, 2007:281), municipal procurement management practices refer to the purchasing, hiring or obtaining by any contractual means, goods, construction works and services by the public sector. Ambe and Badenhorst-Weiss (2012:234), however, state that municipal procurement is a function whereby municipalities acquire goods, services and development and construction projects from suppliers in the local and international market, subject to the general principles of fairness, equitability, transparency, competitiveness and cost-effectiveness. Thornhill and Cloete (2014:121) explain that SCM in local government encompasses all those activities concerning the movement of goods, from the acquisition stage to the end user stage. Therefore, SCM includes procurement, delivery scheduling, order processing, inventory management, stores management and customer service. Thornhill and Cloete (2014:121-122) are further of the opinion that SCM concerns the procurement of goods and services, disposal of goods no longer needed, the selection of contractors and the selection of external mechanisms such as any other institution or juristic person for the provision of municipal services.

Hugo, Badenhorst-Weiss, Van Biljon and Van Rooyen (2009:337) state that one of the key elements of the South African government's strategy for employment creation and income generation is the promotion of SMMEs. Therefore, the South African government has a responsibility to ensure that its procurement policy assists its economic objectives and serves as a channel for achieving it. Thus, the municipal procurement system must enable the emergence of sustainable SMMEs, which will add to the common wealth of our country and the achievement of enhanced economic and social well-being of all South Africans.

Thornhill and Cloete (2014:122) indicate that each municipality or municipal entity is required to adopt a SCM policy to regulate the acquisition of goods and services within the framework of the BBBEEA (RSA, 2003) and the *PPPFA* (RSA, 2000). Thornhill and Cloete (2014:12) further state that in terms of the *PPPFA* (RSA, 2000), SCM of the municipality has to make provision for the processes to

- regulate tenders, quotations, auctions and other types of competitive bidding;
- procedures and mechanisms for each type of process;
- promote transparent pre-qualification processes for tenders and bidding;
- screening processes and security clearances for prospective contractors;
- compulsory disclosure of possible conflict of interest prospective contractors may have in specific tenders;
- barring of persons from participation in tendering who had been convicted as a result of fraud and corruption;
- measures to prevent favouritism and unfair and irregular supply chain practices;
- the procurement of goods and services through contracts by other government departments; and
- the delegation of municipal supply management functions and powers to public officials.

1.5 AN OVERVIEW OF SUPPLY CHAIN MANAGEMENT (SCM)

According to SAMDI (RSA, 2004:10), SCM includes the acquisition and disposal of all goods, services, construction and road works and immovable property of all organs of state and public entities. SAMDI (RSA, 2004:10) further states that SCM can be seen as an integral part of prudent financial management. Thornhill and Cloete (2014:121) maintain that SCM concerns the procurement of goods and services, disposal of goods no longer needed, selecting of contractors to provide assistance in the provision of municipal services, and the selection of external mechanisms such as SMMEs for the provision of municipal services under prescribed circumstances. The National Treasury (RSA, 2015a) describes SCM as the design, planning, execution, control and monitoring of supply chain activities in the delivery of goods, services

or any combination thereof, with the objective of creating net value and providing oversight and coordination of information and finances within the SCM system of the municipality.

The National Treasury introduced a new system of procurement and asset disposal during 2003, based on a SCM framework that consist of the following SCM elements/components, demand management; acquisition management; logistics management; disposal management; and supply chain-performance evaluation control (Moeti, 2014:148-149; Ambe; 2016:24: Naude, Ambe and Kling, 20133-4).

The above elements/components of SCM forms part of the SCM framework that was established in terms of legislative frameworks. The framework is also based on specific constitutional principles or norms and standards also known as procurement and SCM pillars namely equity, fairness, transparency, competitiveness. The above elements and pillars of SCM were discussed in more detail in Chapter two and Chapter three of this study. The supplier/creditor payments are outlined in the discussion below.

1.6 SUPPLIER/CREDITOR PAYMENTS

Fourie and Opperman (2011:374-375) point out that the payment of goods and services procured in accordance with the SCM process form an integral part of the system of acquisition management. In terms of the *MFMA* (RSA, 2003), a creditor refers to a person who is owed money by the municipality. The accounting officer of the municipality must take all reasonable steps to ensure that payments made by the municipality are made directly to the person to whom the funds are due and that all money owed by the municipality is paid within 30 days after receiving the relevant invoice or statement.

1.7 PREVIOUS RESEARCH AND THEORETICAL FRAMEWORK

1.7.1 Previous research

A Joint Country Procurement Assessment Review (CPAR) study was conducted by the National Treasury and the World Bank in 2001 to assess the procurement practices throughout the South African public sector (World Bank, CPAR, 2003:1-3). The study identified certain shortcomings in the procurement practices as well as deficiencies pertaining to the interpretation and implementation of the *PPFA* (RSA, 2000). A proposed framework for the management of suppliers within district municipalities of the Free State Province was developed and recommended for implementation. Since 2003, the government has introduced

the SCM system as an important tool to manage procurement in all three spheres of government.

A few doctoral studies relating to the statutory legislative frameworks and regulations of public procurement were conducted since 2000. Such a study was conducted during 2005 with the title *The legal regulation of government procurement in South Africa*. The study *inter alia* analyses the way in which provision has been made in legislation for the use of procurement as a policy tool. The primary focus was on the analysis of the *PPPFA* (RSA, 2000) and the applicable regulations thereto, which were enacted to give effect to Section 217(3) of the *Constitution* (RSA, 1996) and the way in which the courts have interpreted and applied the Act and regulations. The study found that the preference point system created by the *PPPFA* (RSA, 2000) demonstrates the importance that it is still attached to the attainment of value for money, with the procurement processes to obtain goods and services (Motsiri, 2009:100; Bolton, 2006:213).

A master's study was conducted at Sedibeng District Municipality's procurement unit practices to establish the extent to which public procurement as applied at Sedibeng District Municipality contributes to the development of designated suppliers. The findings of the study were that the implementation procedures and processes show considerable constraints. Specific recommendations were recommended to improve procurement policies and procedures. Recommendations that were provided include supplier support and development, performance management and improvement systems, guidelines for competitive bids, contract monitoring and performance systems (Motsiri, 2009:100).

Another master's study that was study conducted in a district municipality examined the extent to which good governance has influenced the procurement process at Lejweleputswa District Municipality. The study found possible constraints, which were presented as findings. The study recommended the establishment of good governance that will ensure transparency, participation, accountability and predictability. Old laws were changed to introduce the SCM system; bid committees must be established that will ensure transparency, and procurement procedures at the municipality should encourage participation of women and disable people (Stemele, 2009:87-99).

Ambe and Badenhorst-Weiss (2012:257) conducted a study that explored and revealed challenges restraining the effective and effective implementation of procurement within the

South African public sector. The study concluded that procurement remains challenging in South Africa. It was then recommended that municipalities and municipal entities engage with the employment of qualified procurement practitioners, training and employment of internship programmes, the development of an effective monitoring and evaluation tool, the involvement of institutions of higher learning, development of a syllabus that ensures sustainable procurement in South Africa.

The findings of a study conducted on the SMMEs process within local government sphere within the scope of three Gauteng metropolitan areas revealed that several deficiencies exist in the procurement process, whereby municipalities will have to reassess the situation within their procurement processes and to take some steps to improve these processes. The study recommended that municipalities enhanced skills, knowledge and experience of officials working in the procurement process; conduct training of SMMEs and place better communication structures with SMMEs (Antonites and Truter, 2010:463).

Numerous master dissertations and mini-dissertations were conducted in South Africa related to SCM and public procurement management. These studies focus *inter alia* on

- factors influencing the procurement process in SCM,
- analysis of the SCM processes,
- external supervision of municipal procurement,
- investigating the effectiveness of procurement management in a selected state-owned enterprise,
- the identification of inefficiencies in the public healthcare supply chain,
- tax implications of transfer pricing on SCM,
- the importance of procurement in a contemporary project-based organisation,
- the impact of customer-specific requirements on SCM, and public procurement as a strategic tool for Black Economic Empowerment (BEE) in a district municipality.

However, no studies have been conducted pertaining to the development of a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province.

1.7.2 Theoretical framework

According to Du Plooy-Cilliers *et al.* (2014:55) the theoretical framework is a specific collection of thoughts and theories that relates to the phenomenon, or topic that was chosen to investigate. Therefore, a theoretical framework can be seen as a framed view of a particular topic that was selected and describe in terms of specific and related theories. This study was using a theoretical framework, which appropriately associates with SCM and procurement and the management of suppliers and that would be the means for prescribing solutions to the research problem. The four major organisational theories for SCM and managing of supply chains, namely the principal- agent theory, transaction cost analysis, the network theory and the resource-based view providing guiding principles and a specific perspective associated with SCM and procurement and supplier relations. The four key SCM theories fits the study in that these theories are the most useful theories to explain the structure and management of supply chain and supplier relations, principles and challenges.

1.7.2.1 Principal-Agent Theory

The aim of the principle-agent theory is to design a contract between a company and an agent that can mitigate potential agency problems. The principal agent theory argues that the most efficient contract includes the right mix of behavioural and outcome-based incentives to motivate the agent to act in the interest of the principal (Chicksand *et al.* 2012:11; Gardner 2003:271; Soundry 2007:432). Soundry (2007:432) further avers that the in the context of the principal-agent theory, a principal is any person, company or institution that hires another person or company (an agent or supplier) to provide a perform services, which involves the delegation of some discretion and decision-making authority. Thus, an agent performs services on behalf of a principal. Halldorsson, *et al.* (2007:285) are of the view that separation of ownership and control of economic activities between the agent and the principal, various agency problems may arise. These agency problems include a lack of effective information sharing between the principal and the agent. Other agency problems include conflicting objectives, differences in risk aversion, outcome uncertainty, and behaviour challenges such as self-interest. To overcome these potential agency problems, the contract between the principal and the agent must govern the relationship between the two parties.

In light of the above Kettl (2000:1), Soundry (2007:432) and Zheng-qiang (2008:58) point out that another key aspects of the principal-agent theory are that of integrity and accountability.

Maintaining integrity in public procurement and SCM is one of the most important pillars of modern national procurement systems. By ensuring the accountability of procurement officials is perhaps the most essential aspect of principal agent theory. The accountability of procurement officials is not only important from a public or administrative law perspective, but also has economic implications. These economic implications have three main dimensions. Firstly, on the procuring side, a lack of accountability on behalf of procurement officials may lead to additional costs. Secondly, the absence of accountability could mean that potential suppliers are less encouraged to value government business, to provide high quality goods and services. This, in turn, distorts incentives in the market place as less efficient suppliers are chosen at the expense of efficient suppliers, who go unrewarded, and are thus unable to remain viable and productive. Thirdly, the economic dimension of accountability in public procurement concerns the rest of the society, which is affected by the actions of both the government and the business community. Sundry (2007:433) warns that due to the fact that large sums of public funds are involved, a considerable attraction is presented for engagement in corrupted and unethical activities on behalf of procurement officials. In that case, without effective control mechanisms, procurement officials are likely to be involved in some personal preferences when making procurement decisions. The challenge faced by public procurement regulators therefore, is to ensure that the agency costs which rise when procurement agents or suppliers carry out tasks for the benefit of their principal (government), do not exceed the benefit derived from such a delegation of decision-making authority. The public interest (tax payers) therefore, requires that governmental business is done in a manner guaranteeing that expenditures are made in the most economically rational way. In this way it could save on tax-payers money, while on the other hand it could ensure the long-term growth of the market by allocating contracts to the most efficient contractors or suppliers. In this way, government can produce more services with less tax money, this can be achieved by making the best of SCM productivity through the application of the principal-agent theory (Kettl 2000:1; Sundry 2007:432; Zheng-qiang 2008:58). Thus, government institutions of which municipalities cannot be excluded, have to ensure that the contact with supply chain partners such as suppliers include relevant information about the outcomes, role clarification of both partners, balance of rewards and penalties.

1.7.2.2 Transaction Cost Analysis Theory

Halldorsson *et al.* (2007:287) avers that transaction cost analysis offers an approach whereby a company may reduce its total transaction costs by cooperating with external supply chain partners such as suppliers. It involves, decisions about which activities should be performed within the boundary of each firm, and which activities should be outsourced? According to Miles (2012:329) transaction cost theory examines whether a company should produce something or outsourced it instead. The basic unit of analysis in transaction cost theory is the transaction. A transaction has occurred when a good or service is outsourced. The transaction cost theory further examines the importance of costs not directly related to the production of goods and services. If a procurement official is buying a product, the purchase price must be included, but the cost the time spent searching stores, comparing products, and making purchasing decision and other cost must be considered.

The transaction cost theory holds that transactions differ in a number of ways, such as the degree to which each party's relationship-specific assets are involved, the amount of uncertainty about the other party's actions, the complexity of the trading agreement, and the frequency with which transactions occur (Miles 2012:330). Apart from the above, the transaction cost analysis theory holds that the procurement official needs to be aware of the supply chain partner's or supplier's behaviours and actions. The more the procurement official knows about the trading partners of suppliers and what it will cost the company to maintain relationships with trading partners, it will be better to reduce costs yet create trading conditions under which all partners can benefit (Miles 2012:335). Thus, proper execution of the transaction cost theory will ensure that municipality SCM officials examines and include all aspects of transactions costs involved with procurement of product or service from a supplier.

1.7.2.3 Network Theory/Governance Network Theory

According to Chicksand *et al* (2012:11) and Halldorsson, *et al.* (2007:285), the network theory focusses on the trust relationships between the company or institution and its direct partners or suppliers. The network theory centres on developing long-term, trust-based relationships between the supply chain partners, which includes buyer-supplier relationships. Miles (2012:303) point out that that a primary focus of the social network theory is that social partners (individuals, groups, and organisations) are connected through strong or weak inter-organisational relationships with their business partners. These, inter-organisational

relationships shape the attitudes and behaviour of those in the network and it can influence a number of outcomes that are important to both partners. Legodi (2017:22) explains that since governance processes take place in networks the governance network theory requires that all stakeholders have to trust and believe in each other for the procurement of SCM processes to go undisturbed.

Miles (2012:303) further avers that managers need to seek to connect with the powerful social networks in the organisation so that they can benefit from these important inter-organisational networks, which can help enhance their own performance. Halldorsson, *et al.* (2007:285) argue that parties gradually build up mutual trust through the social exchange processes. Links between a company or institution in a network develop through two separate types of interactions. Firstly, it refers to exchange processes that includes information about the goods and services. Secondly, it refers to the adaptation processes that includes the personal, technical, legal, logistics and administrative elements. The network theory focusses on the development of long-term, trust relationships between the supply chain partners. Legodi (2017:22-23) confirms that the network theory or governance network theory contributed in building up an understanding of the phenomena of SCM systems and the interactions with public and private actors, such as suppliers and their interdependencies to realise public policies. Therefore, the network theory requires that the municipality must develop a trust relationship with its suppliers through positive long-term cooperative relations and interactions with suppliers.

1.7.2.4 Resource-Based View or Theory

According to Chicksand *et al.* (2012:11) the resource-based theory deals with competitive advantages related to the company or institution's possession of various resources (financial, human, physical, technological, organisational and reputational) and its capabilities. Miles (2012:217) states that resources include any tangible or intangible assets. Capabilities include aspects such as the employee knowledge, skills and abilities; machinery and technology; capital; contracts; and efficient procedures and processes. Resources are seen as strengths that assists the institution to compete and to accomplish its vision, mission, strategies and goals. Halldorsson *et al.* (2007:285) agrees that these resources and capabilities constitute the core competence of the company or institution and serves as its source of competitive advantage. The resource-based view or theory further requires that an institution of which the municipality cannot be excluded should focus on its core competencies and outsourcing complementary

competencies to external partner’s or suppliers. In this way the municipality should see supply chains as a means to access resources and competencies outside its boundaries.

1.8 BACKGROUND TO THE PROBLEM AND PROBLEM STATEMENT

1.8.1 Background to the problem

National Treasury has promulgated *Municipal Finance Management Act (MFMA) Circular 49* (RSA, 2009d) on Non-Payment of Obligations, which requires accounting officers to ensure that all money owed by the municipality is paid within 30 days of receiving the relevant invoice or statement (National Treasury, RSA, 2009d). Payment of suppliers is a procurement practice that needs to be managed by accounting officers of municipalities. Fourie and Opperman *et al.* (2011:300) concur by stating that the accounting officer is responsible for the management of the expenditure of the municipality and must, *inter alia* take all reasonable steps to ensure that all money owed by the municipality is paid within 30 days after receiving the relevant invoice or statement. The purpose of the National Treasury (RSA, 2009d) was to avoid long payment cycles of suppliers and to ensure that all money owed by the municipality is paid within 30 days after receiving the relevant invoice or statement. However, the long payment cycle persists, as depicted in Table 1 below. SMEs are the most vulnerable to failure due to non-payment. Table 1.2 below indicates the total amount of R2, 957.776 billion that is owed to suppliers by all municipalities and one metro in the Free State as at end June 2014.

Table 1.1 Creditors Age Analysis – M12 June 2014

R'000	0-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total
	Total %	Total %	Total %	Total %	Total
Mangaung Metro	262,897 95.8%	2,943 1.1%	674 0.2%	7,835 2.9%	274,348
Xhariep District Total	127 48.1%	31 11.8%	4 1.7%	101 38.3%	263
Lejweleputswa Total	432,802 27,0%	83,501 5.2%	144,263 9.0%	943,778 58.8%	1,604,344
Thabo Mofutsanyana	123,276 24.1%	53,944 10.6%	51,503 10.1%	282,050 55.2%	510,773

Fezile Dabi	107,951	26,748	23,099	408,858	566,656
Total	19.1%	4.7%	4.1%	72.2%	
TOTAL	927,052	167,167	219,543	1,642,622	2, 957,776
	31.3%	5.7%	7.4%	55.5%	

(Source: National Treasury Local Government Database, RSA, 2014c)

The amount of R1,642,622 billion is owed to suppliers for more than 90 days. It is evident from the above table that non-payment of suppliers is a reflection of ineffective procurement practices. Table 1.2 below indicates that the total amount of R1,393,342 billion is owed for *Bulk Electricity*; R1,083,931 billion is owed for *Bulk Water*; R237,919 is owed to trade creditors, followed by R134,697 owed to other creditors. All municipalities in the Free State Province owe the above four biggest creditor groups as at June 2014.

Table 1.2. Creditors by Customer Group – M12 June 2014

R'000	Bulk Electricity	Bulk Water	PAYE Deductions	VAT	Pensions/ Retirement	Loan repayments	Trade creditors	Auditor-General	Other	TOTAL
	Total	Total	Total	Total	Total	Total	Total	Total	Total	
Mangaung Metro	162,009	50,975	-	-	-	-	61,364	-	-	274,348
Xhariep District Total	-	-	-	-	-	-	21		242,871	263
Lejweleputswa Total	500,527	930,131	266	39,076	14,383	4,500	106,346	7,383	1,732	1,604,344
Thabo Mofutsanyana	375,449	37,672	622	1,727	-	1,034	35,199	3,609	56,851	512,166
Fezile Dabi Total	355,357	65,153	23,830	-	-	3,687	34,989	7,769	75,871	566,656
TOTAL	1,393,342	1,083,931	24,717	40,804	14,383	9,222	237,919	18,761	134,697	2,957,776

(Source: National Treasury Local Government Database, RSA, 2014c).

According to Choane (2017:2), the latest irregular expenditure in the Free State Province stands at R3,5 billion. Irregular expenditure has increased by 118% in comparison to the previous financial year. Choane (2017:2) further states that poor SCM was a recurring theme in the reasons for irregular spending as it accounted for over 89% of cases reported on irregular spending. The Auditor-General states that the main contributors to irregular expenditure in the province were Matjhabeng (R327 billion), Tokologo (R57 million), Letsemeng (R56 million) and Thabong (R30 million) (AGSA, RSA: 2017:562). Except for the above concerns the Auditor-General further reported that the most common instances of irregular expenditure of all municipalities was related to competitive bids not being invited, bid adjudication committees not composed properly and the use of contracts secured by other organs of state without meeting the requirements of National Treasury (RSA, 2015d) (AGSA, RSA: 2017:30-31). Most of the municipalities in the Free State Province fell behind with their payments for bulk purchases of electricity and water to Eskom by R2,5 billion and water boards by R2,5 billion outstanding on 30 June 2017. In addition, the continued disregard for procurement processes in municipalities of the Free State resulted in irregular expenditure that created an environment open to misappropriation, wastage and the abuse of public funds. Another concern is that the appointment of contractors and suppliers without following the competitive bidding process resulted in irregular expenditure in most of the municipalities in the Free State Province as mentioned above (AGSA, RSA, 2017:55-56).

Other challenges that affect suppliers are indicated by Antonites and Truter (2010:455) as intrinsic issues related specifically to SMMEs' business ability, as well as external factors such as access to finance which hamper the ability of SMMEs to do business with local government. Ambe and Badenhorst-Weiss (2012:249-250) further state the following:

- Lack of proper knowledge, skills and capacity;
- Non-compliance with SCM policy and regulations,
- Inadequate planning and linking of demand to the budget,
- Lack of Accountability and unethical behaviour;
- Corrupt practices in the SCM;
- Inadequate monitoring and evaluation of SCM,
- Too much decentralisation of the procurement system,

In light of the above, Gauteng Strategic Procurement Framework (RSA, 2012:38) highlighted the following challenges with regard to implementation of public procurement,

- Poor demand forecasting;
- Ineffective contract management;
- Poor enforcement of audit findings;
- Conflict of interest;
- Access to procurement information; and
- Late and non-payment of suppliers.

It is important that district municipalities of the Free State Province are assisted and supported to overcome the above challenges, given the fact that municipalities are the providers of primary services essential for the dignity of communities who live in its area of jurisdiction. This is also because municipalities are the key site of delivery and development and are central to the entire transformative project of the new dispensation of South Africa.

Section 65(2)(e) of the *MFMA* (RSA, 2000) holds the accounting officer responsible to ensure that all monies owed by the municipality are paid within 30 days of receipt of the invoice or statement. It has been found that in many instances, municipalities failed to meet their statutory financial commitments as well as in the requirement to pay creditors on time, including payments to bulk service providers of electricity and water, payments to contractors under a contract which specifies payment arrangements, repayments of loan instalments and payments to other creditors. Bankrupt suppliers were unable to create jobs, own poverty, alleviate poverty of the communities it serves and redistribute opportunities and wealth (Antonites and Truter, 2010:463). Payment of obligations to suppliers is one of the procurement practices that need to be managed by all municipalities, district municipalities and metropolitan municipalities; however, due to lack of proper guidelines, the problem still persists and affects service delivery. It is a concern that poor municipal procurement management practices recur year after year and their effects put pressure on the financial resources of municipalities. Ratepayers whose municipalities are unable to meet their service delivery obligations embark on service delivery protests. Based on the above, it is assumed that district municipalities in other provinces experience similar challenges of poor municipal procurement management practice (Antonites and Truter, 2010:463).

The National Treasury, in its continuous endeavour to put measures in place to ensure sound financial management, has developed a step-by-step approach adopted by municipalities that will ensure that municipalities will consistently fulfil their financial obligations as they arise. This process was adopted for the prompt payment of all creditors. Notwithstanding the above efforts to solve the problem, the problem of a long payment cycle by municipalities is still persistent and it is clearly depicted in Table 1.1 and Table 1.2.

As stated on Table 1.2, Bulk Electricity is owed more than R1 billion by municipalities of the Free State Province. The *MFMA* (RSA, 2003) requires accounting officers to ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement. However, it has been brought to the attention of National Treasury that municipalities do not settle creditors' accounts as required by the legal framework. These creditors include the Auditor-General for audit fees, tax liabilities, staff benefits, loan obligations and suppliers of goods and services.

1.8.2 Problem statement

Taking into consideration the above challenges the problem statement for the purpose of this study was as follows: Despite the existence of many procurement and SCM legislation, policies and regulations the continued late payment to suppliers by district municipalities of the Free State Province is a threat in promoting effective management of suppliers and procurement and SCM practices.

1.9 AIM AND OBJECTIVES/QUESTIONS

1.9.1 Research aim

The aim of this study was to promote effective procurement and SCM practices positively by developing a framework for the management of suppliers as part of public procurement and SCM practices in district municipalities of the Free State Province.

1.9.2 Research objectives

Emerging from the above aim, the study had the following main and secondary objectives: The main objective of the study was to develop a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province.

The following subsidiary objectives were:

- a. To investigate, through an extensive literature study, statutory legislative policy guidelines, regulations and frameworks, government reports and documents, international and national procurement models/frameworks guidelines, principles and requirements of public procurement management, municipal procurement management, municipal SCM, debt management and the management of suppliers.
- b. To determine the current status related to the implementation of the *PPPFA (RSA, 2000)* and related regulations within the district municipalities in the Free State Province.
- c. To conduct a comparative analysis of the creditors and suppliers and the payment of suppliers of municipalities in the Free State Province.
- d. To determine the perceived impact of the municipal procurement and SCM practices in relation to the socio-economic conditions of suppliers within the district municipalities in the Free State Province.
- e. To make specific recommendation based on research findings with a view to improving the effective management of suppliers related to municipal public procurement management in the Free State Province.

1.9.3 Research questions

The main question of the study was what aspects should be considered in the development of a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province?

The following secondary research questions were used to achieve the objectives as stated above:

- a. What do the extensive literature, statutory frameworks, policy documents, international and national models/frameworks guidelines, principles and requirements emphasise concerning public procurement management, municipal procurement management, municipal SCM, debt management and the management of suppliers?
- b. What is the current status of creditors and suppliers and the payment of suppliers of municipalities in the Free State Province?

- c. What is the current status related to the implementation of the *PPFFA* (RSA, 2000) and related regulations within the district municipalities in the Free State Province?
- d. What is the perceived impact of the municipal procurement and SCM practices in relation to the socio-economic conditions of suppliers within the district municipalities in the Free State Province?
- e. What specific recommendations, based on research findings could be made with a view to improving the effective management of suppliers related to municipal public procurement practices in the Free State Province?

1.10 RESEARCH METHODOLOGY AND DESIGN

The research methodology and design was discussed in more detail in Chapter 6 of this study.

1.10.1 Research philosophy/paradigm

According to Mcgregor and Murnane (2010:422), there are three types of paradigms, namely positivism, post-positivism or interpretivist and pragmatism paradigm. Du Plooy-Cilliers, Davis and Bezuidenhout (2015:24-25) state that the positivism paradigm underlies the natural-scientific method in human behavioural research and holds that research must be limited to what can be observe and measure. The positivism paradigm accepts knowledge to be true if it is created through scientific methods; on the other hand, a post-positivism paradigm assumes that there are many ways to acquire knowledge aside from using scientific methods. According to Henning and Smith (2013:17), the post-positivism or interpretive paradigm assists the researcher to understand, ow the people under investigation think, interact and behave in their natural environment. Whereas, Maree, Creswell, Ebershöhn, Eloff, Ferreira, Ivankova, Jansen, Nieuwenhuis, Pietersen, Plano Clark (2016:22-23), point out that interpretivist assists the researcher to understand how the people under investigation think, interact and behave in their natural environment. Du Plooy-Cilliers *et al.* (2014:78) explain that the pragmatic paradigm refers to the use of a mix of differed research methods (mixed-method research) as well as modes of analysis to find solutions to specific problems by utilising both qualitative and quantitative research methods.

Therefore, this study was based on a comprehensive descriptive research based on the pragmatic paradigm (mixed-method research) to answer the research questions. The study was mainly informed by the post-positivistic paradigm or interpretivist paradigm (qualitative

research) supported by the positive paradigm (quantitative research). The positivistic paradigm (quantitative research) was used to support and to validate any gaps generated by the comprehensive descriptive study as part of the post-positivistic or interpretivist paradigm (qualitative research) to verify the depth of the identified factors and not to make any comparisons between the manner in which the different groups (municipal officials) answer the questions of the quantitative instrument.

Descriptive research aims to explain occurrences such as human behaviour in administrative sciences, by indicating how the various factors and variables relate to one another. In addition, it aims to clarify how and in what manner one variable affects another (Welman, Kruger and Mitchell, 2005:23). A comprehensive descriptive study also assists the researcher in presenting evidence of interest and significant patterns related to the management of suppliers of the district and affiliated local municipalities in the Free State Province.

1.10.2 Research methodology

According to Du Plooy-Cilliers *et al.* (2014:289), research methodology is seen as a system through which a researcher is able to collect, analyse, and interpret data in order that the research aims and objectives may be achieved. Brynard and Hanekom (2006:37) identified two approaches – quantitative and qualitative – that are of importance in all scientific investigation, and which this study used. Qualitative research employs important methods to this study such as case studies, in-depth interviewing of key informants, participant observation and questionnaires, and perusal of personal documents (such as life histories, diaries and autobiographies). Quantitative research employs methods such as experiments, surveys, structured questionnaires to describe and explain phenomena. The methods could include techniques such as observation, preliminary investigations and questionnaires. Quantitative data of more descriptive data was collected from respondents to draw meaningful conclusions and to verify the depth of the identified factors and not to make any comparisons between the manner in which the different groups answer the questions of the quantitative instrument. This study, was based on a mixed-method research approach, which utilised mainly qualitative methods, such as the comprehensive literature study, document analysis and a semi-structured questionnaire, supported by a quantitative method such as the structured questionnaire to collect data with a view to ensuring consistent results.

1.10.3 Epistemology

According to Hussey and Hussey (1997:49), epistemology is concerned with the study of knowledge and of what we accept as being valid knowledge. Bless, Higson-Smith and Sithole (2014:391) maintain that epistemology refers to the study of different ways in which people develop and validate knowledge about themselves and the world. Mouton (2001:138) agrees with this by explaining that epistemology refers to the truth or truthful knowledge and how it was acquired. The term is derived from *episteme*, the Greek word for ‘truthful knowledge’. Mouton (2005:138) further argues that it is not possible to produce scientific results that are infallible and true for all times and within all contexts. Therefore, researchers have to strive for the most truthful and the most valid results while conducting research. In view of the latter, this study was based on the epistemological assumptions about SCM and public procurement management and in particular the management of suppliers in district and affiliated municipalities in the Free State Province.

1.10.4 Ontology

Ontology refers to the assumptions that are based on the nature of the reality, or the meaning for something to exist (Lapan, Quartoli and Riemer, 2012:7). Maree *et al.* (2016:53) state that ontology refers to the nature and form of reality and the nature and form of reality is defined differently. Hussey and Hussey (1997:49) provide that, according to the ontological assumption, the researcher must make a decision whether to consider the world as objective and external to the researcher or socially constructed and only understood by examining the perceptions of the human actors. Du Plooy-Cilliers *et al.* (2014:27-28) aver that ontology is the study of being, existence or reality. As the knowledge of this study was obtained externally, the ontological assumption lies in the suppliers attached to district municipalities and affiliated local municipalities in the Free State Province, as it is a very important component in the structure of the local government of the Free State Province. The research approach/design, strategy, population, sampling, research instruments, data analysis, data collection was outlined below.

1.10.5 Research design

Glatthorn and Joyner (2005:97) view research design as a specific plan for studying the research problem. Cooper and Schindler (2003:149) state that the research design can be seen as a general plan or blueprint on how the researcher goes about answering the research questions.

A descriptive case study research design was applied in this study. Du Plooy-Cilliers *et al.* (2014:178) state that a case study recounts a real-life situation by describing the specific circumstances of a specific occurrence or trend. According to Shareia (2016:3850) case studies can be descriptive, exploratory or explanatory. Shareia (2016:3850) further argues that by using case studies different methods can be used in collecting and analysing data which may include quantitative, qualitative or a combination of both. Maree *et al.* (2017:82) maintain that a descriptive case study design describes an intervention or phenomenon and the real life context in which it occurred. Coulthard (2015:44-45) avers that a descriptive case study design consists of multiple sources of both qualitative and quantitative evidence that can be triangulating.

1.11 POPULATION AND SAMPLING

1.11.1 Population

The research population of this study refer to the district municipalities of the Free State Province. For the purpose of this study, it should be noted that there are four district municipalities and since 2016 there are 18 local municipalities in the Free State Province. Naledi Local Municipality was disestablished and merged into the Mangaung Metropolitan Municipality on 03 August 2016. Since the purpose of this study was to develop a proposed framework for the management of suppliers as part of public procurement management and SCM practices in the district municipalities of the Free State Province, the population comprised the four district municipalities of the Free State, namely:

- Lejweleputswa District Municipality,
- Thabo Mofutsanyana District Municipality,
- Xhariep District Municipality, and
- Fezile Dabi District Municipality.

In addition, the selected suppliers registered on the database of each of the four district municipalities that have been doing business with the district municipalities since 2010 also formed part of the population. The research population and sampling was discussed in more detail in Chapter six of this study.

1.11.2 Sampling

Neuman (2003:210) describes sampling as getting a representative or a small collection of units, or cases from a much larger collection of units or cases from a larger collection of population, such that the researcher can study the smaller group and produce accurate generalisation about the larger group. For the purpose of this study, the researcher employed purposive sampling as a non-probability sampling method to select ten (10) suppliers contracted to each district municipality and one (1) affiliated local municipality of each of the four (4) district municipalities in the Free State Province. The sample of suppliers were selected from the list (database) of suppliers who have been doing business with each district municipality since the financial year 2014/2015. For the purpose of this study it should be noted as explained by Maree *et al.* (2017:84) there are no rules for sample size in qualitative studies. Sample size in qualitative studies depends on what the researcher wants to investigate, what will be useful, what will have credibility and what can be done with the available time and resources. Maree *et al.* (2017:84) further maintain that 15 is the smallest acceptable sample size in qualitative research.

Thereafter, as part of the probability sampling methods, the simple random sampling was used to select the municipal management (officials) which consist of the MMs, CFOs and heads of SCM of the four district municipalities in the Free State Province. To increase the sampling size one (1) affiliated local municipality of each district municipality were added to elicit information from respondents for both instruments. As mentioned the research sampling was provided in more detail in Chapter six.

1.12 RESEARCH INSTRUMENTS

According to Saunders, Lewis and Thornhill (2009:395), the selection of a research instrument depends on the aim of the research and the research questions. The severity of the problem under investigation required that data be collected using two research instruments, meaning a self-administered, semi-structured questionnaire for extracting data from the selected suppliers supported by a self-administered structured questionnaire to collect data from the selected

municipal officials (See Annexure D and E). A self-administered questionnaire is a data collection strategy in which the respondents read the questions, then choose their preferred answer and record it in the absence of the interviewer.

In this study a self-administered semi-structured questionnaire was issued to the ten (10) suppliers listed on each districts municipality's database and one affiliated local municipality attached to each district municipality that have been doing business with each of the four (4) district municipalities since 2010. The focus of the self-administered semi-structured questionnaire was to elicit information about supplier payment challenges and the effect or perceived impact of late payments by municipalities. A self-administered structured questionnaire was issued to municipal officials of the four district and one affiliated local municipalities to collect data concerning SCM practices, tools, legislation, municipal financial management, management of suppliers and payment of service providers/suppliers with the aim to verify the depth of the identified factors to draw conclusions and not to make any comparisons between the manner in which the different groups answer the questions of the quantitative instrument. Confidentiality was assured and obtained by using a covering letter for both instruments. Both instruments comprised open-ended and close-ended questions and they were disseminated to district municipalities. A five-point Likert scale was used with the close-ended questions in both instruments.

Triangulation as in most mixed-research studies was used to ensure the trustworthiness of the instruments. Bless *et al.* (2014:238) concur that triangulation entails that a researcher uses different methods of data collection. The process of triangulation that was used in this study was explained in more detail in Chapter six.

1.13 DATA COLLECTION AND DATA ANALYSIS

1.13.1 Data collection

There are various methods of collecting data, namely a questionnaire, personal interviews, observation of events as they happen (Tsatsire, 2008:229). Bless and Higson-Smith (1995:106-107) assert that a questionnaire is a data collection instrument that consists of a standardised set of questions. These questions, which are relevant to the research topic, have to be answered in writing by the respondents. Brynard and Hanekom (2016:40-41) assert that interviews are one of the most frequently used techniques of collecting data because the researcher can explain the questions if the respondents do not understand them.

The following literature were used in this study as part of the literature study, namely SCM and public procurement management, municipal financial management related to payment of service providers and debt management, related legislative framework, Acts, regulations and policies, government reports, journal articles, books, conference papers, internet sources. In addition to the above secondary data from the Free State Provincial Government Database 2005-2017 were retrieve to conduct an analysis of the Free State municipalities budget and debt management as discussed in Chapter four of this study. Secondary data from National Treasury Local Government Database 2014-2017 were also retrieved to conduct a comparative analysis of municipal procurement practices and the payment of the creditor groups or suppliers of the district municipalities of the Free State as discussed in Chapter five of this study. An analysis of international and national SCM and procurement management models and frameworks were retrieved and provided in Chapter two of this study as part of the comprehensive descriptive approach of this study. Except for the above the researcher collected data by using a self-administered semi-structured questionnaire (qualitative) and a self-administered structured questionnaire (quantitative).

1.13.2 Data analysis

The data analysis was discussed in more detail in Chapter six of this study. Data analysis is a continuous process of describing, classifying and interpreting data. In addition, data analysis is the conversion of raw data, into valuable, meaningful information for the researcher (Leedy and Ormrod, 2005:148-150). Henning, Van Rensburg and Smit (2004:6-7) maintain that the process of data analysis assisted the researcher to answer the research questions, and to achieve the purpose of the research. In the course of organising the data trends, or contradictions may emerge. These patterns were highlighted for readers to note and for the researcher to follow up on (Brassington and Petit, 2003:1-2).

This study was mainly informed by qualitative research (comprehensive literature study, analysis of secondary data, and a self-administered semi-structured questionnaire) supported by quantitative research (self-administered structured questionnaire) to answer the research questions of this study. Therefore, as part of the qualitative data analysis of this study a comparative analysis of the municipal procurement management practices and the payment of the creditor groups or suppliers of the district municipalities of the Free State was compared to those of the other eight provinces in South Africa to examine the perceived impact of procurement management practices on each category of creditors/suppliers, as stated on the

National Treasury Local Government Database 2014 to 2017 as provided in Chapter five of this study.

The data analysis was based on descriptive analysis of data for both instruments. Bless et al. (2014:348) clearly provided that descriptive statistics may be used on qualitative data, such as in the case of a self-administered semi-structured questionnaire. Both descriptive and inferential statistics were used in the quantitative data analysis of the self-administered structured questionnaire.

In this study, the researcher was assisted by an experienced statistician in qualitative and quantitative research methodologies. The statistician assisted the researcher to develop the questionnaires, provide guidance in collating, interpreting and analysing the results from the data collection instruments. The data analysis was provided in more detail in Chapter six of this study.

1.14 PILOT STUDY

For the purpose of this study, a pilot study was conducted to ensure the validity and reliability of both instruments. The following experts in SCM took part in the pilot study, the Chief Executive Officer of the Provincial Treasury, the General Manager, of the SCM Unit of the Mangaung Metropolitan Municipality and three SCM expert of the Free State Provincial Treasury.

1.15 ETHICAL CONSIDERATIONS/IDENTIFY ETHICAL CHALLENGES

Maree *et al.* (2016:306) mention that it is essential that the researcher follows and abides by ethical guidelines throughout the research process. This study adhered to the following principles of ethical conduct:

- **Informed consent and voluntary participation.** The researcher obtained verbal informed consent from the stakeholders before implementing the questionnaire (See Annexure A). The researcher ascertained whether the stakeholders was available and willing to complete the questionnaire. The researcher presented respondents with a letter of consent, in which the research process was described. The respondents were requested to read the letter and ask questions to gain clarity and sign the consent form if participant is willing to be involved in the research.

- **Letter of consent.** A letter of consent was submitted to the Chief Executive Officer (CEO) of Free State Provincial Treasury, the Head of Monitoring and the Evaluation Unit of the Premier's office, accounting officers of each district municipality, and ten (10) suppliers listed on the supplier database of each district municipality to create awareness of the research purpose and to get their consent to issue the semi-structured questionnaire (See Annexure C).
- **Privacy, confidentiality and anonymity.** All respondents' information and responses shared during the study were kept private and the results were presented in an anonymous manner in order to protect the identities of the respondents.

1.16 LIMITATIONS

This study was subject to certain conditions, with external factors possibly having an influence on the study.

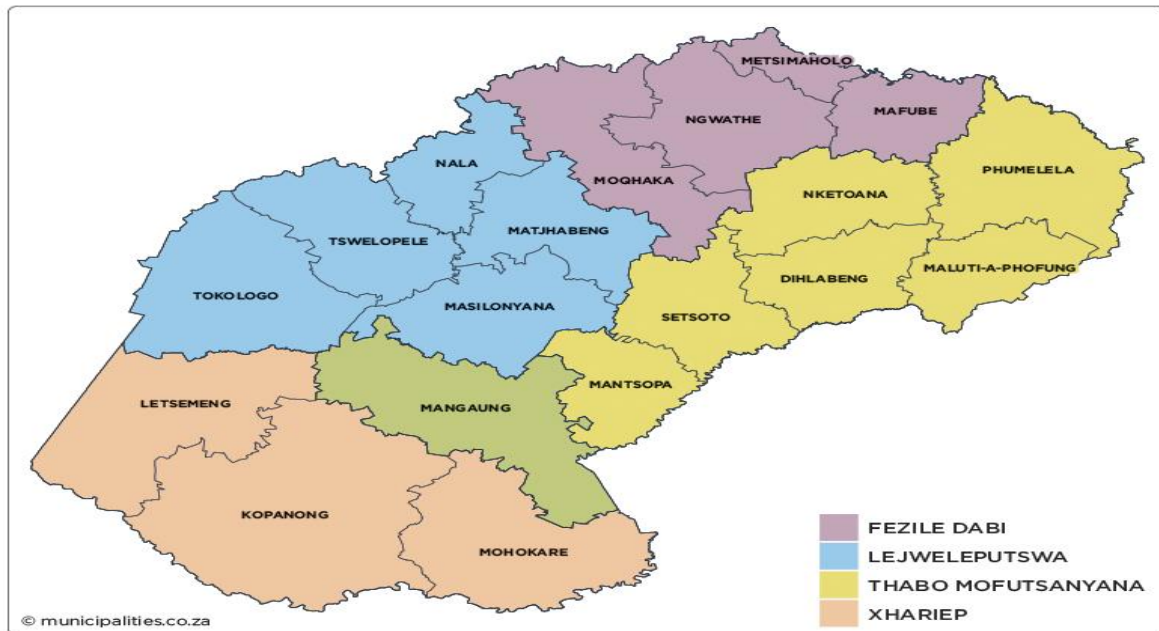
- **Generalisation of findings.** The findings of the study are restricted to respondents based in one particular geographical location, namely the Free State Province. Therefore, caution should be exercised regarding the generalisation of the findings to other provinces or municipalities in the country and beyond.
- **Suppliers' willingness to participate.** Suppliers' willingness to participate due to fear of losing business deals with district municipalities of the Free State Province.
- **Municipal officials' unavailability and lack of commitment or honesty.** Municipal officials' unavailability and their lack of commitment due to fear that they may be caught for certain non-compliance issues could also mean that some of the municipal officials resolved not to tell the truth. Furthermore, the researcher is a senior official appointed as a Procurement Specialist, of the SCM Compliance Unit of the Free State Provincial Treasury. The latter could have an effect on the respondent's perceptions and the manner in which the municipal officials answer the questions in the self-administered structured questionnaire.
- **Financial and personnel constraints.** Some district municipalities may not have procured anything in that particular financial year due to budget being depleted before the end of the financial year or suspension of officials.

1.17 THE CASE OF THE FREE STATE DISTRICT MUNICIPALITIES

As indicated in Section 1.10.5.1 of this study a descriptive case study research design was used. In the case of this study, the four district municipalities of the Free State Province include the Lejweleputswa District Municipality, Thabo Mofutsanyana District Municipality, Xhariep District Municipality and Fezile Dabi District Municipality. It should be noted that there are a total of 18 local municipalities in the Free State Province and one metropolitan municipality namely Mangaung Metropolitan Municipality. In the case of this study the number of suppliers registered on the CSD per district municipality as illustrated in Chapter two in Table 2.2 are indicated below. A total of 5086 suppliers were registered in the Mangaung Metropolitan Municipality on the CSD. The 18 local municipalities attached to each of the above district municipalities are as follows:

- **Lejweleputswa District Municipality:** Masilonyane local municipality; Matjhabeng local municipality; Nala local municipality; Tokologo local municipality and Tswelopele local municipality. A total of 1458 suppliers are registered in this district on the CSD.
- **Thabo Mofutsanyana District Municipality:** Diklabeng local municipality; Maluti-A-Phofung local municipality; Matsopa local municipality; Nketoana local municipality; Phumelela local municipality and Setsoto local municipality. A total of 1868 suppliers are registered in this district on the CSD.
- **Xhariep District Municipality:** Kopanong local municipality; Letsemeng local municipality and Mohokare local municipality. A total of 282 suppliers are registered in this district on the CSD.
- **Fezile Dabi District Municipality:** Mafube local municipality; Metsimaholo local municipality; Moqhaka local municipality and Ngwathe local municipality. A total of 1269 suppliers are registered in this district on the CSD.

Figure 1.1 below illustrates a map of the district municipalities of the Free State Province.



(Source: Anon, 2019, Available: <https://municipalities.co.za>, Accessed 31 August 2018).

Figure 1.1 Map of the district municipalities of the Free State Province

The Free State Province is the third-largest province in the country, but it has the second-smallest population density with a total of 2834714 which is a total of only 5.1% of the national population. Bloemfontein is the capital city, which is also the judicial capital of the country. The province is the second poorest province in the country, and the economy is dominated by agriculture, mining and manufacturing (Anon, 2019 Available: <https://municipalities.co.za> Accessed: 31 August 2018). As mentioned in Section 1.9 of this study the continued disregard for procurement processes in municipalities of the Free State Province resulted in irregular expenditure that created an environment open to misappropriation, wastage and the abuse of public funds. Furthermore, the most common instances of irregular expenditure in Free State municipalities was related to competitive bids not being invited, bid adjudication committees not composed properly and the use of contracts secured by other organs of state without meeting the requirements of SCM Regulations 32 (National Treasury, RSA, 2015d). As part of the case study approach an analysis of the creditors or suppliers and the payment of suppliers of the Free State municipalities were analysed in Chapter five of this study. Except for the analysis an empirical study was also conducted. The results and findings of the empirical study was discussed in Chapter six of this study, followed by the conclusions and recommendations in Chapter seven of this study.

1.18 PROVISIONAL CHAPTER LAYOUT

Chapter One: Introduction and background to the study. This chapter provides the general introduction, problem background and statement, research aim, objectives and questions, research methodology, ethical considerations and limitations of the study.

Chapter Two. Theoretical review of municipal procurement management practices. The chapter commences with an overview of public procurement in South Africa, followed by a discussion about the shift from public procurement to SCM. The role players in SCM are provided followed by a discussion about the statutory, legislative frameworks and policy directives on procurement and SCM. The advantages of SCM, the categories of expenditure as part of SCM are discussed, followed by a discussion about e-procurement. A discussion about international and national models/frameworks and guidelines for procurement and SCM in municipalities. Lastly, the South African model and guidelines for procurement and SCM in municipalities are provided.

Chapter Three. An overview of SCM in local government. This chapter explores in detail the applicable SCM policies and what is expected from municipalities and municipal entities management to implement it. The constitutional norms and standards and the elements of the SCM framework as provided by the National Treasury (2005b) which requires that SCM be practised within demand, acquisition, logistics and disposal management areas. These management areas were each discussed based on their role of generating opportunities for improving the socio-economic conditions of SMMEs suppliers doing business with the four district municipalities of the Free State Province. This was followed by an exploration of the relationship between purchasing and suppliers. The chapter closed by discussing the SCM practices and tools.

Chapter Four. An overview of municipal financial management with specific reference to expenditure and debt management. As part of the literature review of this study, this chapter explores the statutory and legislative framework for local government and municipal financial management. This is followed by a discussion of local government financial management and municipal budgets. An analysis of the Free State Municipalities Draft Budgets and debt management for the 2015/2016 and 2016/2017 was provided, followed by a discussion about the various role players and structures involved in municipal financial management. An overview of expenditure management and the different types of expenditure

in local government is provided. Lastly, an overview of debt management is provided. The chapter views sound financial management as made possible by effective, efficient and economic expenditure management and debt management.

Chapter Five. An analysis of the creditors/suppliers and the payment of suppliers the Free State municipalities. As part of the qualitative and document data collection and analysis of this study, this chapter provides a comparative analysis of municipal procurement and SCM practices and the payment of the creditor groups or suppliers of the district municipalities of the Free State Province. The chapter also provide a comparative analysis of the municipal procurement management practices in the Free State, compared to those of the other eight provinces in South Africa, using secondary data from the National Treasury Local Government Database, (RSA, 2017c).

Chapter Six. Empirical research: Methodology findings and results. This chapter covers the research design and methodology that directed the present study, and which aim to develop the proposed framework for the management of suppliers as part of public procurement management and SCM practices in the district municipalities of the Free State Province. The research methodology in study involves collection of data from municipal officials of all district municipalities and one local municipality of each district as well as SMMEs suppliers doing business with these municipalities by means of self-administered structured and semi-structured questionnaires. Analysis and interpretation of this data were performed through statistical processes in order to achieve the research aim and objectives.

Chapter Seven. Conclusions and recommendations. This chapter follows on the analyses and interpretations that were concluded in Chapter six. The findings are used and linked with the literature reviewed and the analysis of the creditors/suppliers and the payment of suppliers of the Free State municipalities to make some recommendations as part of the objectives of the study. Recommendations about further research areas related to this study are also identified and proposed. The proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province was outlined. It is important to acknowledge the limitations of the study because this enables the reader to become conscious of the shortcomings of the study, which adds to the credibility of the findings.

1.19 SUMMARY

The aim of this study was to promote effective procurement practices positively by developing a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province. The study assesses the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province. The main objective of the study was to develop a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province. Chapter one provided background information on the problem and along with an outline of the problem statement, the aim and objectives of the study, the research questions and the research design and research methodology. Chapter two provided a comprehensive theoretical review of municipal procurement and SCM and a comparative analysis of international and national models/frameworks and guidelines for procurement and SCM in municipalities.

CHAPTER TWO: THEORETICAL OVERVIEW OF MUNICIPAL PROCUREMENT MANAGEMENT PRACTICES IN LOCAL GOVERNMENT

2.1 INTRODUCTION

According to Thai (2009:82), governments in every country spend a great portion of national resources on acquiring supplies, services and capital assets. This view is also supported by Rothery (2003:370) by stating that worldwide, governments spend about 10% of GDP on the procurement of goods, works and services annually. Thai (2009:82) further provides that this magnitude of government procurement outlays has created opportunities for governments to implement selected national policies. Government entities, including municipalities can require, for example, that contractors and suppliers, particularly those doing business with government, maintain fair employment practices, provide safe and healthy working conditions, pay fair, living wages, give preference to disadvantaged businesses, national and local contractors and suppliers and to small or women/minority-owned businesses. Each country has its own procurement preferences; South Africa is no exception. During 2013/2014, the South African public sector spent R500 billion on goods and services and on construction work National Treasury (RSA, 2015b:3). This indicates that public procurement fulfils a vital role in a country in that it has important economic and political implications. Therefore, the South African government, particularly municipalities, have to ensure that public procurement practices are economical and efficient, because a greater and significant role in economic and social development is assumed by municipalities.

Procurement has its origins in government administrations to deliver goods, services and works, for example, roads and harbours and services, health care and education to the population of a country or a specific geographic region, city or town (Odhiambo and Kamau, 2003:10). Arrowsmith (2010:1) views public procurement as government activity of purchasing the goods from suppliers to perform its functions. Handfield, Monczka, Guinipero and Patterson (2011:8) view procurement as a strategic, systematic process of ensuring that maximum value is delivered to the organisation, through identification and selection of suitable and competent suppliers, negotiating, contracting, conducting supply market research, fostering supplier measurement and systems development. Hugo and Badenhorst-Weiss (2013:3) define public procurement as a function whereby public sector institutions, of which municipalities cannot be excluded, acquire goods, services from suppliers in the local and international market. The procurement of goods and services from suppliers is subject to the

general principles of fairness, equitability, transparency, competitiveness and cost-effectiveness. The procurement of goods and services from suppliers includes many activities that support the service delivery of government entities, ranging from routine items to items for complex development and construction projects. Furthermore, in a quest to achieve more through procurement, government institutions developed a variety of procurement practices (Wellstein and Kieser, 2011:683). Over the years, government institutions engaged in public procurement practices that were detrimental to the original overall intention of government procurement; hence, there is a need to enhance current public procurement management and SCM practices.

In the context of the South African government SCM is an important tool for managing public procurement, furthermore SCM forms an integral part of public and municipal financial management (Ambe and Badenhorst-Weiss, 2012:246). SCM operates within a regulatory framework set by the national government and extended by provinces and local government bodies to formulate their own specific provincial policies, legislation and regulations. The aim of SCM is to add value at each stage of the procurement process from the demand for goods or services to their acquisition, managing the logistics process, and finally, after use, to their disposal. According to Ambe and Badenhorst-Weiss (2012:246), SCM aims to address deficiencies in current practice relating to public procurement, contract management, inventory and asset control and obsolescence planning. The adoption of SCM policy ensures uniformity in bid and contract documentation, options and bid and procedure standards that promote the standardisation of SCM practices. Roux (2009:6) mentions that South Africa has a procurement practice in place comparable to international standards. To reap the full benefits of the SCM system, there is a need to develop a procurement framework for enhancing effective public procurement management and SCM practices for the district municipalities in the Free State Province.

The purpose of this chapter was firstly, to provide an overview of public procurement management practices in local government. Secondly, the chapter provided a comparative analysis of international and national models/frameworks and guidelines for procurement and SCM in municipalities. This chapter commences with a discussion about public procurement in South Africa, followed by a discussion about the shift from public procurement to SCM. The statutory, legislative frameworks and policy directives on procurement and SCM were discussed. The various categories of expenditure as part of SCM systems were provided,

followed by a discussion about e-procurement. A discussion about international and national models/ frameworks and guidelines for procurement and SCM in municipalities were provided. Lastly, the South African models and guidelines for procurement and SCM in municipalities were provided.

2.2 PUBLIC PROCUREMENT MANAGEMENT IN SOUTH AFRICA

Before 1994 the procurement system was characterised by discriminatory practices favouring the white minority and disadvantaged the black majority. Due to the history of discrimination and unfair practices in South Africa, public procurement management and SCM practices prior to 1994 were geared towards the large usage of established contractors and suppliers. This made it difficult for SMMEs to participate in government procurement process (Ambe and Badenhorst-Weiss, 2012:2; Munzhedzi, 2016:2; Migiro and Ambe, 2008:231). After the first democratic elections, which took place on 27 April 1994, the South African government had to undergo a process that recognises the strategic importance of effective public procurement management by ensuring that its procurement policies support the objectives of redressing the past imbalances. Thus, public procurement can be seen as one of the tools to attain the objectives of redressing the past imbalances.

In the light of the above, the National Treasury (RSA, 2003a:5) states that since 1995, the government, in pursuit, to redress past imbalances, has initiated two broad procurement reforms, which focused at promotion of the principles of good governance. The two reforms in public procurement relate to the decentralisation of the process of procurement through tendering and secondly it entails the introduction of a new system of procurement and asset disposal that are based on SCM principles. The new system of procurement and asset disposal based on SCM principles was introduced by National Treasury during 2003, integrating demand management, acquisition management, logistics management, disposal management and SCM performance evaluation and control (Moeti 2014:148-149; Ambe and Badenhorst-Weiss, 2012:245; Naude, Ambe and Kling 2013:1-2).

The above reforms were incorporated in Section 112 of *MFMA* (RSA, 2003) and Section 76(4)(c) of the *PFMA* (RSA, 1999) and the *PPFA* (RSA, 2000). The procurement reform processes were further supported by the introduction of a number of legislative measures, including the adoption of the *National Small Business Act* (Act 102 of 1996) (RSA, 1996) and the *National Small Business Amendment Act 29 of 2004* (RSA, 1996). Antonites and Truter

(2012:2) argue that although the South African government implements specific statutory legislative framework such as the *National Small Business Act* (RSA, 1996) and the *National Small Business Amendment Act* (RSA, 2004), as well as the *BBBEEA* (RSA, 2003) to promote increased procurement sourcing from SMME's there is no evidence of significant growth of SMMEs, in particular suppliers doing business with government.

The National Treasury, in cooperation with the World Bank, completed a Joint Country Procurement Assessment Review (CPAR) in 2003, which assessed the procurement practices throughout the public sector. According to SAMDI (RSA, 2004:6-7) and Ambe and Badenhorst-Weiss (2012:245-246), there were certain shortcomings with the public procurement practices relating to governance, interpretation and implementation of the *PPPFA* (RSA, 2000) and its applicable regulations. SAMDI (RSA, 2004:6-7) and Badenhorst-Weiss (2012:245-246) further point out that the public procurement systems and provisioning were fragmented in that tender boards were responsible for procurement, while provisioning was prescribed by the norms and standards in the logistic systems driven by the National Treasury. The logistics system as part of assets management was also questioned because of a lack of proper handling of movable assets in the public sector. Furthermore, it must be acknowledged that, public procurement management operates in an environment of increased scrutiny driven by technology, programme reviews, and public and political expectations for service improvements (Bolton, 2006; Eyaa and Oluka, 2011).

In the light of the above shortcomings, a new procurement and asset disposal system based on SCM principles was introduced in the South African public sector during 2003, in conjunction with Provincial Treasuries, to replace the outdated procurement and provisioning practices in municipalities (SAMDI, RSA, 2004:9). The aim of the new system of SCM is to add value at each stage of the public procurement process, from the demand of goods or services to their acquisition, the managing of the logistics process and the disposal of obsolete assets (SAMDI, RSA, 2004:9).

In the light of the above, the Office of the Chief Procurement Officer (OCPO) at National Treasury was established in 2013 to modernise and oversee the public-sector SCM system. The OCPO at National Treasury is also responsible for addressing challenges such as inefficient public-sector SCM (particularly in the procurement phase); suppliers charging excessive prices for goods and services contracted for; deliveries of poor quality and unreliable; corruption and waste; lack skills and knowledge of SCM; and lack of accountability (National Treasury, RSA,

2015b:1). National Treasury (RSA, 2005b:9) states that the Office of the OCPO aims to reform public sector SCM through rationalising the legislative environment, simplifying and reducing the number of tender documents, streamlining and standardising business processes, socio-economic transformation to address current structural economic imbalances. The session below outlines the shift from public procurement to SCM.

2.3 A SHIFT FROM PUBLIC PROCUREMENT MANAGEMENT TO SCM

In most countries today, public procurement management has emerged as a topic of intense public scrutiny as well as debate and has been subjected to a plethora of reforms, restructuring, and the formulation of rules and regulations (Williams and Quinot, 2008:248). According to Bolton (2006:1), public procurement, as one of the most important aspects of public expenditure, has far-reaching social, economic and political implications. Public Procurement can further be seen as one of the major instruments of government policy that can be used to improve social and economic development (Sahle, 2002:279). Except for the latter, Pooe, Mafini, and Makhubele (2015:3) maintain that public procurement management is increasingly seen as an essential instrument in service delivery, particularly in developing countries and it accounts for a high proportion of total expenditure. Mkhize (2004:11) confirms that in South Africa, public procurement accounts for approximately 14% of the country's gross domestic product (GDP).

The Green Paper on Public Sector Procurement Reform, (RSA, 1997) and the 10-Point Plan of Public Procurement, 1995 (Interim strategy document) have shaped and informed procurement thinking practices in South Africa. Furthermore, the National Treasury (RSA, 2003c:2) and Hugo and Badenhorst-Weiss (2013:287) state that all organs of state have to ensure participation of SMEs in the tendering system to generate income and to create employment opportunities.

In addition to the above, Watermeyer (2005:28) describes procurement as a process through which contracts are created, managed and fulfilled. Watermeyer (2005:28) further adds that procurement can be documented as a succession of logically related actions that occur, or are performed in a definite manner, culminating in the completion of a major deliverable or the attainment of a milestone. Basheka (2009:133) states that public procurement management as a core function of public financial management and service delivery. Basheka (2009:133) further avers that an effective and efficient public procurement system in South Africa is

essential for the realisation of the millennium developmental goals as well as the promotion of sustainable development.

According to Ambe and Badenhorst-Weiss (2012:244), public procurement management is a function whereby public sector institutions acquire goods, services and items for development and construction projects from suppliers in the local and international market, based on the general principles of fairness, equitability, transparency, competitiveness and cost-effectiveness. Ambe and Badenhorst-Weiss (2012:244) further state that public procurement management entails those activities that support the delivery of service of government entities, ranging from routine items to the acquirement of goods and services of complex development and construction projects. CIPS (2013:3) views procurement as a business management function that ensures identification, sourcing, access and management of the external resources that an organisation needs or may need to fulfil its strategic objectives. The National Treasury (RSA, 2015b:4) on public procurement management describes the process of implementing a decision to acquire goods and services.

On the international front the United Nations Commission (UNCITRAL, 1995:1-2) states the following objectives of public procurement management:

- to make most of economy and efficiency in procurement with the sole intention to encourage SMME supplier participation in procurement management practices, regardless of nationality;
- to promote international trade and fair competition among suppliers and contractors for the supply of goods, construction or services to be procured;
- to provide fair and equitable treatment of all suppliers and contractors; and
- to promote the integrity of and fairness and public confidence in the procurement process to achieve transparency relating to procurement management practices.

This indicates the essential and multifaceted role of public procurement management whereby, if there is proper management of suppliers at each stage of the procurement management process there will be prompt payment of suppliers and provision of quality services, which will boost the livelihoods of suppliers, communities and nations.

In the context of South Africa SCM forms an integral part of procurement management practices that seeks to introduce internationally accepted best practice. SCM bridges the gap

between traditional methods of procuring goods and services and the balance of the supply chain whilst addressing procurement-related matters of strategic importance (National Treasury, RSA, 2003a:3; Ambe, 2012:249). According to SAMDI (RSA, 2004:10), SCM involves the management of working capital that is invested in goods, stores and services with the objective of optimising the economic return on such investment. SAMDI (RSA, 2004:10) further explains that SCM entails the following, proper planning at budgeting phase; careful product or service selection, supplier selection and management; bidding process; requisitions; catalogue management; ordering; invoicing and payment; customer service; and asset and inventory management. During the strategic session of the municipality, the needs of the entire municipality are identified, planning for service delivery targets are identified, to the point of finally disposing of an asset. The objectives of SCM are depicted in the National Treasury (RSA, 2005a) as follows:

- To give effect to the provisions of the *Constitution* (RSA, 1996);
- To give effect to the provisions of the *MFMA* (RSA, 2003);
- To transform outdated procurement and provisioning practices into an integrated SCM function;
- To ensure that SCM forms an integral part of the financial management system of the municipality/municipal entity;
- To make significant improvement to financial management in the broader public sector;
- To introduce a system for the appointment of consultants;
- To create a common understanding and interpretation of government's preferential procurement policy objectives;
- To promote consistency in respect of SCM management policy and other related policy initiatives in government; and
- To align with global trends and ensure that South Africa adheres to international best practices (National Treasury, RSA, 2005a).

The CIPS (2013:5) agrees with the above by explaining that SCM can be seen as the efficient and effective management of all activities from primary suppliers right through to the point of sale. Hugo and Badenhorst-Weiss (2013:4) mention that SCM encompasses the planning and

management of all activities involved in sourcing and procurement, conversion and all logistics management activities. It is further mentioned that SCM includes coordination and collaboration with suppliers, intermediaries, third-party service providers and customers. Hugo *et al.* (2009:56) view SCM as a management approach that encompasses managing the entire flow of information, materials and services from raw material suppliers through factories and warehouses to the end customer. Hugo *et al.* (2009:56) further point out that SCM is centred on the concept of value, which postulates that to increase value includes increasing functionality or use of a product or service while holding costs constant. Hugo *et al.* (2009:56) maintain that suppliers are the main actors in SCM; hence, supplier management needs to be a precondition of SCM, which forms part of efficient procurement management practices, particularly in district municipalities. The South African government shifted from previous centralised discriminatory public procurement practices to a more integrated SCM system where SCM forms an integral part of procurement, with the intention to ensure that procurement practices are economical, efficient, add value to the livelihoods of SMME suppliers, communities and the nation through good governance, and the introduction of a preference system (Hugo *et al.*, 2009:56).

In light of the above and as mentioned in Section 2.2 of this chapter, the two reforms in public procurement in South African government relate to the decentralisation of the process of procurement through tendering and secondly with the introduction of a new system of procurement and asset disposal that are based on SCM principles (Moeti, 2014:148-149; Ambe and Badenhorst-Weiss, 2012:245).

2.3.1 A framework for SCM

As mentioned in Section 1.5 of the previous chapter and in Section 2.9.6 of this chapter, the National Treasury introduced a new SCM system in the form of the SCM framework during 2003. The objectives of the SCM framework, is to create a common understanding and interpretation of government's preferential procurement policy and to provide value-added goods and services to government customers. The framework regulates the SCM system by providing for the following elements/components, namely demand management, acquisition management, logistics management, disposal management and SCM performance. These elements of SCM as provided by the National Treasury (RSA, 2005a), SAMDI (RSA, 2004:12-13), Migiro and Ambe (2008:231-232) and Bizana, Naude and Ambe. (2015:667) are indicated

below (National Treasury, RSA, 2005a). A detailed discussion on the elements of SCM was provided in Chapter three of this study.

2.3.1.1 Demand management

The objective of demand management is to ensure that needs identified by management of the municipality are incorporated in the IDP which is also the strategic plan of the municipality (National Treasury, RSA, 2005b). Demand management requires firstly a needs analysis process before the process can continue. Demand management also requires that goods and services must be delivered at the correct time, price and place and that the quantity and quality comply with specifications of the identified needs. It further ensures that future as well as current needs are understood, requirements are linked to the budget, specifications are precisely determined, and industry and commodity analysis is conducted and potential suppliers are identified. The decisions on specifications taken by management during this phase should be accurate to ensure effective public procurement management, particularly in the district municipalities (Naude *et al.*, 2013:3; Ambe, 2016:24; Maleka 2016:44; Bizana *et al.*, 2015:670; Matolong 2015:23-24; Sanderson, Lonsdale, Mannion and Matharu 2015:xvii).

2.3.1.2 Acquisition management

Acquisition management as explained in the previous chapter refers to the management of procurements, it also includes the evaluation of bids, the composition of the bid committees and the registration of defaulters, bid adjudication and the appointment of consultants/suppliers (Ambe, 2016:24; Naude *et al.*, 2013:4; Maleka 2016:47-48; Bizana *et al.*, 2015:671; Matolong 2015:25-26). In terms of the National Treasury (RSA, 2005a:12) the intention of acquisition is for municipal managers to make decisions on the following:

- to decide on the manner in which the market should be approached;
- establish the total cost of ownership of assets;
- ensure that bid documentations are complete, including evaluation criteria;
- to evaluate bids in accordance with published criteria; and
- to ensure that proper contract documents are signed.

Naude *et al.* (2013:4) agrees that acquisition management includes the process of acquiring goods and services from suppliers. It entails the bidding process, preparation of bid documents,

bid invitations, bid evaluation, selecting the preferred suppliers or bidders, and the preparation of the required contracts. The bidding process must take place in accordance to the PPPFA (RSA, 2000), BBBEEA (RSA, 2003) and MFMA (RSA, 2003)

2.3.1.3 Logistics management

Logistic management implies to strategically manage acquisition, the movement and storage of goods, the cost fulfilment of orders and to provide relevant information from the point of departure to the point of consumption (Ambe 2016:24; Matolong 2015:26-27; and Maleka 2016:53-54). Naude *et al.* (2013:40) maintain that logistic management involves contract and inventory management that includes ordering, receiving and coding of goods, distributing of goods to customers and to manage the warehouse and the transport fleet of a public sector institution. The National Treasury (RSA, 2005a:12) provides that the purpose of logistics management is to address the setting of inventory levels, receiving and distribution of materials; stores, warehouse and transport management; and the review of vendor performance. The reliability of vendor needs to be monitored in terms of amongst others delivery periods, quality and quantity. This process should activate the financial system to generate payment. The Free State Provincial Treasury (RSA, 2009:38) provides that when an order is issued to a supplier a binding contract have been established. Therefore, relevant documentation, meaning delivery note and invoices, must be submitted and captured promptly for payment within the legal 30-day period to avoid litigation and interest charges.

2.3.1.4 Disposal management

The goal of disposal management is disposing of assets that are no longer needed, including unserviceable, redundant or obsolete assets. When an asset is permanently withdrawn from use, or dispose and it has no future economic benefits or service potential such assets should be removed from the statement of the municipality's financial position. It is important for the municipality to appoint a suitable committee to deal with disposals, and their recommendations are considered for disposal decisions. The municipality must make provision for obsolescence planning, and must inspect any material for potential reuse and has to determine a disposal strategy before executing the physical disposal process. All municipalities must have a database of redundant material (Fourie and Opperman, 2015:421-422; Ambe, 2016:24, Naude *et al.*, 2013:4; Matolong 2015:15; Maleka 2016:56).

2.3.1.5 Supply chain performance

According Naude *et al.* (2013:4); Bizana *et al.*, (2015:671); Matolong (2015:28); Maleka (2016:57) and Mokotedi (2016:21-22) the objective of SCM performance is to systematically monitor processes by undertaking a retrospective analysis to determine whether the proper processes have been followed and whether the desired objectives were achieved. Ambe (2016:24) maintains that SCM performance entails to monitor the progress and to determine whether the desired outcomes were achieved as government spends a lot on goods, services and works (Mhelembe and Mafini 2019:4). Ambe (2016:240) further points out that National Treasury has developed a reporting template that is used by Provincial Treasuries to monitor SCM implementation process at municipalities. To improve the supply chain performance continuously, municipalities are expected to adopt the template to enhance their SCM.

The above elements form the basis on which SCM as an integrated part of procurement is implemented all three spheres of government including municipalities and municipal entities. The current procurement and SCM challenges in the context of the South African public sector including municipalities are outline below.

2.3.2 CURRENT PROCUREMENT AND SCM CHALLENGES IN SOUTH AFRICAN PUBLIC SECTOR

The above reforms and applicable statutory and legislative frameworks which is discussed in Section 2.5 of this chapter concerning the public procurement and SCM process and practices is often undermined due to a lack of compliance and the lack of correct interpretation of SCM policies and regulations, lack of accountability, political interferences, appointment of suppliers not listed on the Central Supplier Database (CSD), tender irregularities, lack of expertise in the relevant bid committees (Munzhedzi, 2016:1-2). The Auditor-General confirms that most of the irregular expenditure that were exposed was caused by SCM transgressions and contracts that were awarded in contravention of SCM policies and regulations (AGSA, RSA, 2017:53).

Ambe and Badenhorst-Weiss (2012:249-254) listed the following SCM and procurement challenges in the South African public sector namely; lack of capacity; non-compliance with SCM policies and regulations; inadequate planning and linking demand to the budget; lack of accountability and unethical behaviour; corruption and fraudulent practices in SCM; inadequate internal control measures for monitoring and evaluation of SCM; too much

decentralisation of the procurement system; poor implementation of demand management; lack of effective contract management, lack of enforcement of audit findings and conflict of interest. Each of the above is briefly explained below.

- **Lack of capacity.** Bolton (2016:24); Matolong (2015:33-34); Mokotedi 2016:28-29). and Pillay and Mantzaris (2015:324) concurs with Sheoraj (in Ambe and Badenhorst-Weiss, 2012:250) by affirming that proper knowledge, skills and capacity shortages can be seen as the single greatest impediment regarding the implementation of effective SCM and procurement practise in the South African public sector. The National Treasury provides relevant training guides, manuals, supportive regulations such as the Preferential Procurement Regulations (PPR), (RSA, 2011c) and the amended Preferential Procurement Regulations (PPR) (RSA, 2017a), the SCM Regulations (RSA, 2005b) under the MFMA (RSA, 2003), the Municipal SCM Learner Guide (RSA, 2008a), and the Code of Conduct for SCM Practitioner of 2007 (RSA, 2007b). Despite of the above SCM and procurement supportive regulations and training guides there is still a lack of professional SCM staff to successfully implement the SCM policies and regulations effectively.
- **Non-compliance with SCM policies and regulations.** It was mentioned above that the Auditor-General warns that most of the disclosed irregular expenditure resulted were in contradiction with SCM legislation (AGSA, RSA, 2017:53). The overall regression in compliance with legislation and the overall high levels of non-compliance with SCM and procurement policies and regulations were caused due to a culture where compliance deviations were tolerated instead of taking appropriate actions against those responsible for SCM transgressions (AGSA, RSA, 2017:53). Non-compliance with SCM and procurement legislative frameworks leads to corruption and tender irregularities (Munzhedzi 2016:2; Maleka 2016:59-60; Mokotedi 2016:28; Pillay and Mantzaris 2015:323).
- **Linking demand to the budget.** Demand management as one of the core elements of the SCM framework defines the decision-making process that allows departments to procure goods and services at the right time, at the right place and right cost. Many departments including municipalities and municipal entities are still faced with the challenges of inability to link demands to the budgetary process (Ambe and Badenhorst-Weiss 2012:251; Matolong 2015:34; Mokotedi 2016:29).

- **Lack of accountability and unethical behaviour.** Ambe and Badenhorst-Weiss (2012:251) and Maleka (2016:60) argue that accountability can be seen as the centre to public procurement, without accountable systems, the vast resources channel through the public procurement system run the danger of being entrapped with increased corruption and tender irregularities and misused of public funds. The latter is confirmed by the Auditor-General that the lack of accountability and the appropriate consequences for accountability failures can be seen as the most prominent element in the 2015-16 and 2016-17 local government audit outcomes (AGSA, RSA, 2017:15). The Auditor-General further warns that except for the lack of accountability the lack of consequences is evident in most municipalities. The Municipal councils failed to conduct the required investigations in all instances of unauthorised irregular and wasteful expenditure in the 2015-16 and 2016-2017 financial years. Furthermore, sufficient steps were not taken to recover, write off or approve or condone unauthorised irregular and wasteful expenditure (AGSA, RSA, 2017:15). Thus, the lack of accountability, consequences and unethical behaviour relating to SCM and procurement practices remains a challenges in many municipalities (Pillay and Mantzaris 2015:322).
- **Corruption and fraudulent practices in the SCM.** Fourie (2018:733) describes public procurement as one of the government actions that are most susceptible to corruption although governed by over 80 various statutory instruments. According to Turley and Perera (2014:25), and Pillay and Mantzaris (2015:323), more than R25 billion of the South African procurement budget was lost to corruption. Furthermore, the multiplication of the value of transactions and the financial interests at stake, corruption risks are exacerbated by various aspects, such as the complexity of the process, close relationships between public officials and businesses, the multitude of stakeholders lead to fraudulent transactions (Pillay and Mantzaris 2015:330). According to Fourie (2018:8) it has become evident that corrupt practices specific to procurement includes bribery, extortion, embezzlement, nepotism, patronage systems, fraudulent payments before completion, kickback schemes, false invoices, over-paying or duplicate payments, fronting in Black Economic Empowerment (BEE) companies, inflated prices, unnecessary purchases, payments made for goods or services not received, host suppliers on the ‘preferred suppliers list’, the use of shell

companies, and ‘facilitation fees’ required by state officials. (Pillay and Mantzaris 2015:328; Mokotedi 2016:16-17; Maleka (2016:62).

Fourie (2018:734) observed the conclusions by KPMG in the Australian and New Zealand Biennial Bribery and Corruption Survey for 2013, that it is difficult to quantify the total cost of corruption, because of undetected or unreported frauds. Fourie (2018:734) concurs with Pillay and Mantzaris (2015:328) that most fraud and corruption exists in municipal SCM processes, wherein other forms of corruption were identified as bid rigging, collusive bidding implying bidders agree beforehand who should win the tender. Except for the above, there are also secret agreements regarding compensation, inflated profit taking or taking turns to win tender, and improperly awarded tenders including possibilities for corruption during the tender evaluation and decision-making phases. The adjudicators who present the information from the evaluators to the decision-makers are often in a unique and strong position to influence results.

- **Inadequate internal control measures for monitoring and evaluation of SCM.** The lack of adequate financial control systems and measures to detect deviations and non-compliance of SCM and procurement legislation, regulations and SCM Code of Conducts. One could argue that SCM and procurement legislative frameworks and regulations will not be implemented effectively without proper monitoring and evaluation measures to detect any deviations with the aim to prevent irregularities. Another concern is that there are inadequate internal control measures in place to ensure that the appointment of bid committees and the handling of bids takes place in accordance with SCM policies and regulations. Moeti (in Munzhedzi, 2016:2) is of the opinion that fraud, corruption and tender irregularities often took place in the absence of proper internal control measures to monitor and evaluate SCM practices with the aim to detect deviations (Munzhedzi, 2016:2; Ambe and Badenhorst-Weiss, 2012:252; Mokotedi 2016:30-31).
- **Too much decentralisation of the procurement system.** Munzhedzi (2016:2) maintain that SCM of which public procurement forms an integral part has been decentralised to the provinces and municipalities. A concern is that the decentralised SCM and procurement system often leads to tender irregularities, fraud and the appointment of suppliers who are not listed on the CSD (Ambe and Badenhorst-Weiss,

2012:253; Munzhedzi, 2016:2). The latter is confirmed by the Auditor-General (AGSA, RSA, 2017:15) reported that although prohibited by legislation, contracts and quotations worth R15 million were awarded to municipal employees and Councillors who have an interest. The segregation of SCM powers and functions is required to ensure that one public official does not invite quotations, receive the quotation and also award the contracts for the same goods or services (Van der Walt in Thornhill, Van Dijk and Ile, 2014:299).

- **Poor implementation of demand management.** Bizana *et al.* (2015:679) and Maleka (2016:61) asserts that inadequate demand management execution which has its roots from poor demand forecasting, lack of integrated planning, lack of capacity to investigate the market thoroughly and inadequate specification contributes to ineffective implementation of demand management which adds to inefficiency in local government. This takes place despite that National Treasury provides relevant training guides and manuals such as SCM Guide to Accounting Officers of municipalities and municipal entities (RSA, 2005), the Municipal SCM Learner Guide (RSA, 2008a), and the Code of Conduct for SCM Practitioner of 2007 (RSA, 2007b).

Lack of effective contract management. According to Pillay and Mantzaris (2015:323) and Bizana *et al.*, (2015:678-679) the lack of appropriate contract management processes and aspects such as continued late payment to service providers, resource constraints, late deliveries, incompetent service providers, are significant factors that have a negative impact on the completion of project, and it contributes to poor quality of goods and provision of services.

- **Lack of enforcement of audit findings and consequence management.** Mokotedi (2016:31) and Matolong (2015:32-33) state that municipalities' poor corrective measures for non- performance and contraventions of the laws, contributes to the challenges in SCM. Mokotedi (2016:31) observed further that the Auditor General has noted that a lack of consequences management became manifest in the findings, which revealed that investigations into fruitless and wasteful expenditure were not done for a high number of auditees. Ineffective responses to non-compliance towards SCM transgressions and unauthorised, irregular and fruitless and wasteful expenditure demonstrate a lack of consequences in municipalities. This apparent failure to take

enforcement measures against those who break the SCM legislation remains a challenge.

- **Conflict of interest.** Maleka (2016:62-63); Matolong (2015:35-36) and Brooks (2016:48) observed that conflict of interest poses a huge challenge in SCM, where public servants responsible for evaluation, adjudication and awarding of contracts tend to use their positions to receive incentives from bidders in order to unlawfully award contracts to these bidders and at times to officials' family members or to companies the officials are director. These incentives from bidders defeat the intention of Section 217 of the *Constitution* (RSA, 1996), which requires fair, equitable, transparent and cost-effective SCM and procurement practices.

In light of the above, it is clear that the lack of accountability, continued non-compliance of SCM and procurement regulations and the lack of proper control measures to detect deviations on time are serious concerns that can be seen as the core root causes for the poor implementation of SCM and procurement policies and regulations. It is also clear that the inadequate control measures must be in place to ensure that the appointment of bid committees and the handling of bids takes place in accordance with SCM policies and regulations. Lastly it is critical important to ensure that one public official does not invite quotations, receive the quotation and also award the contracts for the same goods or services. The different role players in procurement and SCM are discussed in the section below.

2.4 ROLE PLAYERS IN PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

The role players in SCM in the South African public sector are discussed in this section. The role players of SCM in local government are discussed in detail in Chapter 3 of this study.

2.4.1 The National Treasury

According to Van der Walt (in Thornhill *et al.* 2014:296) the National Treasury must prescribe uniform norms and standard and therefore it must issue regulations to ensure uniformity regarding procurement in practices and procedures. The National Treasury is established in terms of Chapter 13 of the *Constitution* (RSA, 1996). It must promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities in each

sphere of government. In terms of Section 5 of the *MFMA* (RSA, 2003), the National Treasury is responsible for the following:

- To promote good budget and fiscal management by municipalities, and for this purpose monitor the implementation of municipal budgets, including their expenditure, revenue collection and borrowing;
- To investigate any system of financial management and internal control in any municipality or municipal entity and recommend improvements; and
- To take appropriate steps if the municipality or municipal entity commits a breach of the *MFMA*, including the stopping of funds.

National Treasury (RSA, 2005a:15) states that the SCM Office has been established in the National Treasury to oversee the implementation of SCM, in conjunction with Provincial Treasuries. The main functions of the Supply Chain Office are the following:

- To formulate and to provide advice on SCM implementation;
- To administer national SCM legislation and regulations;
- To promote communications and liaison between different SCM units and among the three spheres of government;
- To monitor the compliance with SCM Regulations and Guidelines;
- To establish minimum reporting requirements for accounting officers;
- To investigate complaints received from the public regarding bid procedures and irregularities;
- To maintain a Register for Tender Defaulters, which contain the names of tender defaulters as instructed by a court of law and which will be made public; and
- To monitor the way in which SCM is implemented in accordance with government's procurement reform objectives. Monitor the way in which targets are set and attained, and whether value for money is obtained.

In addition to the above functions, the National Treasury must compile a reporting mechanism to enable Provincial Treasuries to monitor the implementation of SCM in the local sphere of government. Thus, the National Treasury's is responsible to promote a coherent financial

management and SCM system and practice across all three spheres of government and organs of state (National Treasury, RSA, 2005a:15; Kuye *et al.*, 2002:115-116; Van der Walt in Thornhill *et al.*, 2014:296).

2.4.2 Provincial Treasuries

Provincial Treasuries are responsible to promote the object of MFMA (RSA, 2003) in accordance with the framework of cooperative governance as well as to assist the National Treasury in enforcing compliance with applicable legislation and regulations. Provincial Treasuries must support all municipalities in the province to implement relevant SCM policies and regulations. Provincial Treasuries must provide assistance to municipalities to concerning their capacity building requirements. Provincial Treasuries have to issue complementary guidelines within the parameters set by the National Treasury. Furthermore, the Provincial Treasury must also submit to the any SCM information as required by the National Treasury (National Treasury, RSA, 2005a:16; Fourie and Opperman, 2015:551; Ambe, 2016:23). Thus, the Provincial Treasuries fulfil an important role in enforcing compliance by monitoring the implementation of SCM and procurement policies and regulations in municipalities.

2.4.3 Municipalities/Municipal Entities

The following role players in SCM in South Africa municipalities are outlined below. A detailed discussion of the SCM role players in municipalities was provided in Chapter 3 of this study.

2.4.3.1 The Municipal Council

According to Ambe (2016:23) a Municipal council must approve the SCM structure and policy of the municipality. The Municipal council must ensure that the accounting officer of the municipality executes the municipalities SCM policy. Section 60 of *MFMA* (RSA, 2003) provides clear guidance on the administrative roles and responsibilities of accounting officers and the oversight role of the Municipal council. The Municipal council as the highest authority in the municipality and strengthens the power of the Council by vesting it with significant powers of approval and oversight. Given the importance of the approval and oversight role of Councillors, the *MFMA* (RSA, 2003) separates the policy-making responsibilities of these role-players from the implementation role of the municipal officials. In terms of Section 117 of *MFMA* (RSA, 2003), Councillors are not allowed to be members of a municipal bid committee

or any other committee evaluating or approving bids, quotations, contracts or other bids, nor attend any such meeting as observer.

2.4.3.2 The Accounting Officer

In terms of Sections 62 and 95 of the *MFMA* (RSA, 2003) the accounting officers are fully responsible and should be held accountable for any expenditures relating to SCM within their line of responsibility. Any expenditure incurred should be subject to appropriate regulations and accounting officers' directives and procedures. In this regard the National Treasury guidelines provide the necessary parameters to ensure uniformity within the SCM system. Fourie and Opperman (2015:370) maintain that a Municipal council and the board of directors of a municipal entity must delegate additional powers and duties to the accounting officer to enable the accounting officer to discharge the SCM responsibility conferred to accounting officers in terms of Chapter 8 or 10 of the *MFMA* (RSA, 2003) and the SCM policy of the municipality or entity. The accounting officer further has to ensure that it maximises the administrative and operational efficiency in the municipality concerning the implementation of the municipalities SCM policy, as well as to enforce reasonable, cost effective measures for the prevention of fraud corruption, favouritism and unfair and irregular practices concerning the implementation of the municipalities SCM policy. Sections 62 and 95 of the *MFMA* (RSA, 2003) further state that it is the responsibility of each accounting officer to implement the SCM policy as adopted by the municipality Council. The accounting officer is further tasked with developing and implementing a plan to assist with managing the implementation of the SCM policy (National Treasury, RSA, 2005a:15; Fourie and Opperman, 2015:370; Ambe, 2016:23).

2.4.3.3 Municipal Supply Chain Management Units

In terms of the National Treasury (RSA, 2005b:17) all municipalities and municipal entities must establish a SCM unit to implement the municipality's SCM policy. According to Van der Walt (in Thornhill *et al.*, 2014:296) SCM units can be seen as the custodian of SCM in public departments. The SCM Units are responsible for the execution implementation of fair, equitable, transparent and cost-effective SCM and procurement practices. The SCM Unit further must provide SCM and procurement advice to relevant stakeholders and has to keep record of all relevant SCM documentations.

Fourie and Opperman (2015:370) further maintain that the SCM unit of the municipality must where possible function under the direct supervision of the Chief Financial Officer (CFO) or

official to whom the duty has been delegated in terms of the *MFMA*, 2003. However, it is the responsibility of the Accounting Officer to ensure that the SCM unit is properly staffed. Fourie and Opperman (2015:370) further state that a joint SCM unit may be established to implement a parent municipality and a municipal entity unit under sole or shared control's SCM policies. SCM is an integral part of municipal financial management and the SCM unit should operate under the direct supervision of the CFO. Municipalities and municipal entities should ensure clear lines of authority and accountability, as well as performance criteria that will contribute towards minimising risk, improving sourcing procedures and processes and enhancing asset and inventory management (Van der Walt in Thornhill *et al.*, 2014:296; Ambe, 2016:23; Fourie and Opperman, 2015:370).

2.4.3.4 Bid Committees

In line with Regulations in terms of the *PFMA* (RSA, 1999) and the National Treasury (RSA, 2003:3), the SCM system must, in case of procurement through a bidding process, provide for the bid committees for instance bid specification, bid evaluation and bid adjudication (Bizana *et al.*, 2015:671). The municipal manager as the accounting officer of the municipality must establish a bid committee to consider bids submitted for the procurement of goods and services. A bid specification committee must entail at least four officials, one of which must be an SCM specialist (Khalo and Vyas-Doorgapersad in Van der Waldt, Venter, Phutiagae, Nealer, Khalo, Vyas-Doorgapersad, 2018:247; Maleka 2016:34)).

2.4.3.4.1 Bid Specification Committee

The bid specification committee must approve the following, the performance requirements and critical elements of current and future needs as identified and specified during the municipalities strategic planning process (Department of Public Works, SCM Policy, National Treasury, RSA, 2008b:13; Fourie and Opperman, 2015:377; Bizana *et al.*, 2015:671; Maleka 2016:34)).

2.4.3.4.2 Bid Evaluation Committee

Received tenders need to be evaluated by bid evaluation committee based on the criteria stated in the bid documents as prescribed in terms of the *PPPFA* (RSA, 2000) makes recommendations to bid adjudication committees. A bid evaluation committee must consist of at least four people, one of which must be a SCM specialist. Therefore, the bid evaluation

committee consist of a SCM practitioner, technical experts from the department requiring the particular goods or service. The accounting officer of the municipality must appoint the chairperson and members of the bid evaluation committee. The bid evaluation committee has to evaluate bids in accordance to the requirements of the PPPFA (RSA, 2000) the tax matters of bidders and report on the recommendations regarding the awards issued to suppliers (Department of Public Work SCM Policy, RSA, 2008:18; Fourie and Opperman, 2015:378; Van der Waldt *et al.*, 2018:252; Ambe, 2016:23; Bizana *et al.*, 2015:671; Maleka 2016:35).

2.4.3.4.3 Bid Adjudication Committee

All bids recommended by the bid evaluation committee must be approved by the bid adjudication committee. The bid adjudication committee need to consider the report from bid evaluation committee and ensure that evaluation of bids adheres to the SCM norms and standards, namely equity, fairness, transparency, competitive and cost effective and that all bids are in accordance with all SCM prescripts. The committee should be made up of four senior management officers of the municipality and the head of SCM, who must be a SCM specialist (Department of Public Work SCM Policy, 2008:18; Fourie and Opperman, 2015:378; Van der Walt in Van der Waldt *et al.*, 2018:254; Bizana *et al.*, 2015:671; Maleka 2016:35-36).

In light of the above role players it is clear that they fulfil a critical role in the implementation of applicable SCM and procurement legislation and regulations. However, some of the above players are often prone to deviate from SCM policies as mentioned in Section 2.3.2 above such as the bid committees. Therefore, effective control SCM and procurement measures must be in place to ensure that deviations are detected and in particular that the appointment of bid committees, the handling of bids takes place in accordance with SCM policies and regulations.

2.5 STATUTORY, LEGISLATIVE FRAMEWORK AND POLICY DIRECTIVES ON PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

The focus of this section is on the statutory, legislative frameworks and policy directives that govern procurement and SCM in local government. These statutory, legislative frameworks and policy directives begin with the provisions of the *Constitution* (RSA, 1996), which provides the basis for procurement in South Africa, followed by legislative frameworks and policy directives that prescribe the use of procurement and SCM in all three spheres of government with specific reference to local government. Chapter Three of this study provides a detailed discussion about the requirements and implementation of the municipal SCM

regulations. The statutory and legislative framework for local government and municipal financial management were discussed in detail in Chapter four of this study. The requirements of the *Constitution* (RSA, 1996) are outlined below.

2.5.1 The *Constitution* of the Republic of South Africa, 1996

Fourie (2018:730) argues that public administration of which SCM cannot be excluded should be managed in accordance with democratic values and principles enshrined in the *Constitution* (RSA, 1996) which has been adopted as the supreme law of the country of South Africa. According to Section 40 of the *Constitution* (RSA,1996), the government of South Africa is constituted as national, provincial and local spheres and all spheres must observe, adhere and conduct their activities to the constitutional principles. The *Constitution* (RSA, 1996) provides in the preamble that it aims to, amongst others, heal the divisions of the past and improve the quality of life of all its citizens. Section 153 of the *Constitution* (RSA, 1996) provides that municipalities be mandated with major developmental responsibilities to ensure that the quality of life of its citizens is improved with a view to adhere to values expressed in the *Constitution* (RSA, 1996) (Mokotedi 2016:22; Matolong 2015:15; Maleka 2016:37).

Thornhill and Cloete (2014:20) aver that Chapter 7 of the *Constitution* (RSA, 1996) makes provision for the objects of local government, the development duties of municipalities, the categories of municipalities the powers and duties of municipalities. Fourie (2018:731) observed that Section 152 of the *Constitution* (RSA, 1996) requires that the municipality must strive within its financial and administrative capacity to achieve the following;

- the provision of democratic and accountable government for local communities;
- the provision of services to communities in a sustainable manner;
- the promotion of social and economic development;
- promotion of a safe and healthy environment; and
- to ensure the involvement of communities and community organisations in the matters of local government particularly with regard to holding managers accountable for delivering effective services to communities.

Munzhedzi (2016:1) and Fourie (2018:731) aver that Section 217 of the *Constitution* (RSA, 1996), requires that legislation must prescribe a framework within which the preferential

procurement policy must be implemented in all three spheres of government, particularly local government, as it was established amongst others to promote social and economic development of the communities it serves. Fourie (2018:732) argues that Section 152, in Chapter 7 of the *Constitution* (RSA, 1996) further places the responsibility on local governments to ensure provision of goods and services to communities in a sustainable manner. The latter can only be achieved if efficient and effective procurement and SCM system is implemented, which form part of prudent financial management.

Bolton (2016:8-9) argues that Section 217(1) of the *Constitution* (RSA, 1996) provides the basis for the implementation of procurement and SCM and requires that when organs of state in the national, provincial or local government contract for goods or services it must be fair, equitable, transparent, competitive and cost-effective. In other words, when procurement and SCM managers make a decision to award contracts to suppliers and contractors, they must apply the above five Constitutional norms and standards or principles (Munzhedzi, 2016:3; Fourie 2018:732).

In terms of Section 217(2)(1) of the *Constitution* (RSA, 1996) provides that it does not prevent the organs of state 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, disadvantaged by unfair discrimination. Section 217(3) of the *Constitution* (RSA, 1996) provides that national legislation must prescribe a framework within which the preference policy may be implemented. This means that SMME' suppliers doing business with municipalities were disadvantaged by unfair discrimination in the past. Therefore, it would be important for municipal procurement and SCM managers to give them preference during decision-making and in the implementation of their procurement and SCM policies (Fourie 2018:731).

Pauw and Wolvaardt (2009:68) provide that the decision to award tenders that clash with the five constitutional principles provided in Section 217(1) of the *Constitution* (RSA, 1996) would be unconstitutional (Fourie 2018:730). This view is also attested to by Roux (2009:5), when stating that it is generally accepted that public procurement may be used to achieve a country's socio-economic objectives. These objectives must be achieved within the framework of a public procurement management system that complies with the principles. Pauw and Wolvaardt (2009:74) view equity as an act where black suppliers rely on management to give them and contractors advantage in the tender process. Competitiveness requires that a sufficient

number of suppliers be afforded the opportunity to tender. This is confirmed by the National Treasury (RSA, 2006) prohibiting the set-asides by which departments tried to reserve certain contracts for black firms only. Cost-effectiveness refers to minimum costs, meaning more can be acquired for the same amount. However, if there is no proper management of suppliers at each stage of the procurement process, suppliers and contractors will charge excessive prices and deliver poor-quality goods, services and construction work at the expense of life of the citizens.

2.5.2 *Public Financial Management (PFMA), 1999 (Act 1 of 1999, as amended by Act 29 of 1999)*

In terms of Section 38(1)(a)(iii) and Section 76(4)(c) of the *PFMA (RSA, 1999)*, the accounting officers of all institutions to which this Act is applicable are responsible and accountable for financial management matters. Section 76(4)(c) and (Section 38(a)(iii) of the *PFMA (RSA, 1999)* empowers the National Treasury to make regulations concerning the determination of a framework for an appropriate procurement and provisioning system (Munzhedzi, 2016:3).

2.5.3 *Local Government: Municipal Finance Management Act (MFMA), 56 of 2003)*

All three categories of South African municipalities are subject to the *MFMA, 2003* which became effective in July 2004. The *MFMA (RSA, 2003)* is an extension of the *PFMA (RSA, 1999)*. The main objective of the *MFMA (RSA, 2003)* is to secure sound and sustainable management of the fiscal affairs municipalities by establishing norms and standards and other requirements for, amongst other things, SCM. Furthermore, the *MFMA (RSA, 2003)* is also meant to promote the ethical behaviour of officials involved in public procurement (Pooe *et al.*, 2015:68; Maleka 2016:39; Mokotedi 2016:24; Bolton 2016:9; Turley and Perera 2014:8; Brooks 2016:65).

In this regard, Chapter 11 of the *MFMA (RSA, 2003)*, provides that all prospective service providers should have equal and simultaneous access to information relevant to the bidding process. Section 111 of the *MFMA (RSA, 2003)* provides that every municipality and municipal entity must have and implement a SCM policy, which gives effect to the *MFMA (RSA, 2003)*. Section 112(1) of the *MFMA, 2003*, also the SCM policy of the municipality indicate that SCM practices must be fair, equitable, transparent, competitive and cost effective. In line with the *MFMA (RSA, 2003)*, Section 65(2)(e), accounting officers of municipalities have to ensure that all money owed by the municipality are paid within 30 days of receiving

the undisputed invoice or statement. Furthermore, accounting officers are required in terms of Section 97(3) of the *MFMA* (RSA, 2003) to inform the parent municipality immediately of any payments due by an organ of state to the entity in respect of service charges, if payments are regularly in arrears for periods of more than 30 days.

Fourie and Opperman (2011:335) state that according to Section 111 of the *MFMA* (RSA, 2003), every municipality and municipal entity must adopt and implement SCM policy that gives effect to Section 217 of the *Constitution* (RSA, 1996) and Part 1 of Chapter 11 of the *MFMA* (RSA, 2003), and other applicable provisions of the Act. Furthermore, the SCM policy must be fair, equitable, transparent, competitive and cost effective, and must comply with the regulatory framework prescribed in Chapter 2 of the present Regulation as well as any minimum norms and standards, prescribed in terms of Section 168 of the Act. The SCM policy must be consistent with other applicable legislation (Fourie 2018:732).

Section 117 of the *MFMA* (RSA, 2003) provides that no Councillor of any municipality may be a member of a municipal bid committee or any other committee evaluating or approving tenders, quotations, contracts or other bids, and may not even attend any such meeting as an observer. In addition, the SCM Regulations (RSA, 2005b) under the MFA (RSA, 2003), provides that the Municipal council of the municipality must enforce reasonable, cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of SCM practices.

In terms of Section 119 of the *MFMA* (RSA, 2003), the accounting officer and all other officials of the municipality or municipal entity involved in the implementation of the procurement and SCM policy must meet the prescribed competency levels determined by National Treasury.

2.5.4 National Treasury Municipal Supply Chain Management Regulations, 2005 of MFMA

Fourie and Opperman (2011:67) observe that the National Treasury published the Municipal SCM Regulations (27636 of 2005) in terms of the *MFMA* (RSA, 2003) on 30 May 2005 (hereafter refer to as National Treasury, RSA, 2005b). The National Treasury (RSA, 2005b) outlines the responsibilities, powers of certain officials of the municipality at the discretion of the municipal management. In terms of the Chapter 1 of the National Treasury (RSA, 2005b) every municipality and municipal entity must adopt and implement a SCM policy, which gives effect to Section 217 of the *Constitution* (RSA, 1996) (National Treasury, RSA, 2005b). This

means that the management of municipality needs to ensure that the SCM policy in place is implemented in a manner that is fair, equitable, transparent, competitive and cost effective and bidders should be treated fairly, without bias, favouritism (Bolton 2006:1). Awards need not be made to a person who is in the service of the state to uplift the socio-economic status of SMME suppliers doing business with the government. The National Treasury (RSA, 2005b) further requires that officials for SCM need to be trained to ensure effective implementation of relevant SCM policies (Fourie 2018:730; Matolong 2015:17).

2.5.5 National Treasury, SCM Guide for Accounting Officers of Municipalities and Municipal Entities, 2005.

Fourie (2018:732) argues that Section 1 of the Code of Conduct for SCM Practitioners as contained in the Guide for Accounting Officers of Municipalities and Municipal Entities (hereafter refers to as National Treasury, 2005a) requires SCM officials to act in the public interest and not perform their duties to gain any unlawful form of compensation, payment or gratuities from any person, or supplier for themselves, their family or their friends (National Treasury, RSA, 2005a). The Code of Conduct for SCM Practitioners further requires that municipal officials responsible for SCM should ensure that they perform their duties effectively, effectively and with integrity, in accordance with the relevant legislation and regulations and ensure that public resources are administered responsibly. Furthermore, municipal officials responsible for SCM should be fair and impartial in the performance of their functions, and should at no time afford any undue preferential treatment to any group or individual or unfairly discriminate against any group or individual (National Treasury, RSA, 2005a).

Section 2 of the Code of Conduct for SCM Practitioners of 2008 further requires from municipal officials responsible for SCM, to declare any business, commercial and financial interests or activities undertaken for financial gain that may raise a possible conflict of interest. They should place also themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties. SCM practitioners should not take improper advantage of their previous office after leaving their official position (National Treasury, RSA, 2005a; Fourie 2018:732).

Section 3 of the Code of Conduct requires from SCM practitioners to be accountable for their decisions and actions to the public, as well as to use public property scrupulously. Only

accounting officers or their delegates have the authority to commit the government to any transaction for the procurement of good and services. All transactions conducted by a practitioner should be recorded and accounted for in an appropriate accounting system. Practitioners should not make any false or misleading entries into such a system for a reason whatsoever (National Treasury, RSA, 2005a; Fourie 2018:732).

Section 4 of the Code of Conduct for SCM Practitioners requires from SCM practitioners to be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only if it is in the public interest to do so. In addition, Section 5 of the Code of Conduct for SCM Practitioners requires information that the property of the government or its suppliers should be protected at all times. No information regarding any bid/contract/bidder/contractor may be revealed if such an action will infringe on the relevant bidder/contractor's personal rights (National Treasury, RSA, 2005a; Fourie 2018:732).

Matters of confidential nature in the possession of supply chain practitioners should be kept confidential, unless legislation, the performance of duty or the provisions of law require otherwise. Such restrictions should also apply after separation from service. Accounting officers of municipalities and municipal entities need to be given the flexibility to manage, amongst others, SCM within a framework that satisfies the constitutional requirements of transparency and accountability. For accounting officers to be held accountable, the National Treasury SCM Guide for Accounting Officers of Municipalities and Municipal Entities (RSA, 2005a) was adopted to guide accounting officers to carry out SCM function and its related managerial responsibilities assigned to accounting officers in terms of Sections 62 and 95 of the *MFMA* (RSA, 2003).

2.5.6 Local Government: Municipal System Act, 2000 (Act 32 of 2000)

In terms of Section 2 of the *MSA*, (RSA, 2000) the municipality is an organ of state within the local sphere of government. Municipalities in South Africa fall under the local government. They too are governed by public procurement legislations enacted and enforced by the government. Municipalities have an important role to play in assisting government in achieving its predetermined socio-economic objectives through procurement (Nkuna and Sebola in Moeti, 2014:154; Fourie 2018:732; Maleka 2016:38).

The municipality is defined in Sections 2(b)(i) and (ii) of the *MSA* (RSA, 2000) as an entity that consists of an administration, a political structure and the community in a determined area. Section 80 of the *MSA* (RSA, 2000) makes provision of services through service delivery agreements with external mechanisms. Section 81 of the *MSA* (RSA, 2000) makes provision for the responsibilities when the municipality provides services through services delivery agreements with external mechanisms. The service delivery, an agreement involving competitive bidding, is set out in Section 83 of the *MSA* (RSA, 2000). Section 83 of the *MSA* (RSA, 2000) further states that if the municipality decides to provide a municipal service through a service delivery agreement with any institution or entity or any person, it must select the service provider through a selection process. The *MSA* (RSA, 2000) Section 96 mandates municipalities to maintain and implement a credit control and debt collection policy consistent with its rates and tariff policies and complies with the provisions of *MSA* (RSA, 2000). Section 97 of *MSA* (RSA, 2000) further provides that a credit control and debt collection policy must provide for credit control procedures and mechanisms and debt collection procedures and mechanisms (Van der Walt in Van der Walddt *et al.*, 2018:69-70; Nkuna and Sebola in Moeti, 2014:154-155; Fourie 2018:732).

2.5.7 Preferential Procurement Policy Framework Act (Act 5 of 2000)

The local, provincial and national governments are mandated to protect the interests of previously disadvantaged persons, hence the South African government realised the need to adopt an integrated approach towards public procurement of goods and services, which is encapsulated in the *Preferential Procurement Policy Framework Act*, 2000 (hereafter referred to as *PPPFA*, RSA, 2000). The objective of the Act is to give effect to Section 217(3) of the *Constitution* (RSA, 1996), which states in part that each municipality has a right to develop its own procurement policy and that the national legislation must prescribe a framework within which the procurement policy may be implemented (Fourie 2018:731; Bolton 2016:9; Maleka 2016:38; Mokotedi 2016:23-24; Matolong 2015:15-16; and Turley and Perera 2014:9).

According to Bolton (2016:9) the *PPPFA* (RSA, 2000) was enacted in 2000 to provide a framework for the implementation of preferential procurement policies, and it was amended in 2011. Section of the *PPPFA* (RSA, 2000) provides the requirements according to which an organ of state including municipalities may implement a preferential procurement policy. Raga and Nano (2011:134) maintain that Section 2 of the older National Treasury (RSA, 2001a) allows the municipality to aim for specific goals which may include *inter alia* contracting

persons who were historically disadvantaged by unfair discrimination on the basis of race, gender and disability. Raga and Nano (2011:134) further maintain that the *PPPFA* (RSA, 2000) requires that any specific goal for which a point may be awarded must be clearly specified in the invitation to submit a tender. Therefore, the contract must be awarded to the tenderer who scores the highest points, unless the objectives criteria as provided in Sections 2(1)(d) and (e) justify the award to another tenderer. In addition to the above, the National Treasury (RSA, 2005b) and National Treasury (RSA, 2016f) give effect to the implementation as well as to ensure uniformity in the application of the provision SCM as set out in the *MFMA* (RSA, 2003) (Raga and Nano 2011:134; Moeti 2014:157).

In light of the above Fourie (2018:731) argues that the *PPPFA* (RSA, 2000) provides a framework, as prescribed by Section 217 of the *Constitution* (RSA, 1996), within which government institutions must procure goods and services. Moeti (2014:146-147) concurs with Section 2(1) of the *PPPFA* (RSA, 2000) by providing that,

- a framework based on a preference point system provide that contracts must be awarded to the bidder with the highest point score;
- point scores are to be awarded for price, meeting social objectives;
- contractor's worth over R500 000 a minimum of ten (10) points can be awarded to a bidder for meeting social objectives, provided that the bid is the lowest acceptable tender and as such scores 90 points for price;
- for contractors worth R500 000 or less, a maximum of 20 points can be awarded to a bidder for meeting social objectives, provided that the bid is the lowest acceptable tender and as such scores 80 points for price; and
- the contract must be awarded to the bidder who scores the highest combined points for price and meeting social objectives, unless factors such as experience and expertise must be considered for purposes of quality assurance.

The PPPFA (RSA, 2000) has turned out to be a significant vehicle by which the government can provide economic opportunities to previously disadvantaged groups, particularly SMME suppliers doing business with government. One could argue that efforts must be undertaken by procurement and SCM managers to ensure that there is management of suppliers to contribute

to the effective public procurement management and SCM practices in the municipalities and district municipalities.

Fourie and Opperman (2011:331) explain that the social objectives or specific goals include the promotion of black economic empowerment, preferential treatment for previously or historically disadvantaged individuals, the promotion of local or regional economic development, and the promotion of SMMEs. Section 10 of the *PPPFA* (RSA, 2000) defines historically disadvantaged individuals as South Africans who could not vote; females; and people with a disability. Pauw *et al.* (2002:242) refer to distribute justice when clarifying the *PPPFA* (RSA, 2000) by stating that the state must distribute goods and services to its inhabitants in such a way as to meet the requirements of justice. Pauw *et al.* (2002:242) further provide that the state must achieve the situation of equity. This differs from numerical equality, whereby everybody receives exactly the same portion of the goods and services made available to the people. Moeti (2014:146) concurs by clarifying that equity is the assertion that all persons (black, white, Indian, Coloured, women, disabled, etc.) deserve a fair share, which may not necessarily amount to an equal share. Pauw *et al.* (2002:242) substantiate this by stating that in South Africa the majority of citizens have been excluded in the past by from the full benefit of the economic fruits of the country. This, the *PPPFA* (RSA, 2000) requires that the government must purchase public goods and services in a way that eradicates inequity, meaning, opportunities be afforded to previously disadvantaged groups (Moeti, 2014:146; Pauw *et al.*, 2002:242).

2.5.8 The National Small Business Act, 1996 (Act 102 of 1996) as amended by Act 29 of 2004

The *National Small Business Act* (RSA, 1996) stipulates varying definitions for each industry sector, including number of employees, turnover and value of assets. For each sector, the definitions differ, except in the case of number of employees, where all sectors except Agricultural have an SMME size-limit of 200 employees (in Agriculture it is 100). A small enterprise is generally defined as having up to 50 employees, and a medium enterprise from 51 to 200. Companies with up to 20 staff are defined as very small enterprises. In the light of the definitions as provided in the *National Small Business Act* (RSA, 1996), as amended in 2004 by *National Small Business Amendment Act* (Act 29 of 2004). The small business is defined by Hugo and Badenhorst-Weiss (2013:285) as a separate or distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one or more owner,

including its branches and subsidiaries, if any, is predominantly carried out in any sector or subsector of the economy. Small businesses can be classified into medium, small, very small and micro. They are usually owner managed and employ between five and 50 full-time employees. The Bureau for Economic Research (BER) (2016:5) points out that small businesses range from medium-sized enterprises, such as established traditional family businesses employing over a hundred people, to informal micro-enterprises. The Bureau for Economic Research (2016:5) further points out that the upper end of the range is comparable to SMME segment found in developed countries. In South Africa, a large majority of SMMEs are concentrated on the very lowest end, where survivalist firms are found (BER, 2016:5). These firms can take the form of street trading enterprises, backyard manufacturing and services, and occasional home-based evening jobs. The informal sector almost exclusively comprises SMMEs, with those classified as survival entities having very little growth potential and are less likely to hire staff (BER, 2016:5).

2.5.9 *Broad-Based Black Economic Empowerment Act (BBBEEA), 2003 (Act 53 of 2003)*

The *Broad-Based Black Economic Empowerment (BBBEEA) Act, 2003* (hereafter referred to as *BBBEEA, RSA, 2003*) came into effect in 2004 as an improvement on the previous Black Economic Empowerment (BEE) policy. The objective of the previous BEE policy was to increase participation of previously disadvantaged groups in the mainstream economy. However, BEE was deemed narrow because it focused exclusively on ownership and management control. The *BBBEEA (RSA, 2003)* was enacted to broaden the number of beneficiaries and included five other elements, namely Employment Equity, Skills Development, Preferential Procurement, Enterprise Development and Socio-economic Development (Antonites and Truter, 2010:447-448; Fourie and Opperman, 2011:331-332; Ambe and Badenhorst-Weiss, 2012:249; Naudé, *et al.*, 2013:1-2; Hugo and Badenhorst-Weiss, 2013:288; Mokotedi 2016:24-25; Maleka 2016:40; Fourie 2018:731).

The National Treasury (RSA, 2008a:45) concurs with the above view and provides that the primary intentions of apartheid were to prevent black people from economic empowerment and, given the socio-economic imbalances of the past, the need for reform became crucial for South Africa. The *BBBEEA (RSA, 2003)* and other regulations, under the auspices of the Department of Trade and Industry (DTI), were thus developed and enacted with the following objectives, namely

- to establish a legislative framework for the promotion of black economic empowerment;
- empower the Minister to issue codes of good practice and to publish transformation charters;
- to establish the Black Economic Empowerment Advisory Council; and
- to provide for matters connected therewith.

The *BBBEEA* (RSA, 2003) further reflects broad-based black economic empowerment rather than just black economic empowerment. Its purpose in doing this is to emphasise that empowerment is not intended to benefit wealthy elite only, but to benefit all black people. The objectives of the *BBBEEA* (RSA, 2003) include the following:

- To promote economic transformation in order to enable meaningful participation of black people in the economy;
- To achieve a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprise;
- To increase the extent to which black women own and manage existing and new enterprises, and increase their cases to economic activities, infrastructure and skills training;
- To empower rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills; and
- To promote access to finance for black economic empowerment.

According to Hugo and Badenhorst-Weiss (2009:336) and Kleinhans and Kruger (2014:2), the *BBBEEA* (RSA, 2003) provides that certain rights and obligations were conferred upon the Minister of Trade and Industry to establish organs to assist in ensuring that the *BBBEE Codes of Good Practice* (RSA, 2007) was developed and published by the Ministry. The *BBBEE Codes of Good Practice* (RSA, 2007) Acts as a guideline for the overall operational aspects of the Black Economic Empowerment strategy in South Africa. The following charters have been produced by the DTI for their respective industries:

- Maritime Transport and Service Industry BEE Charter;

- Forwarding and Cleaning (F&C) Industry BEE Charter;
- The ICT BEE Charter;
- Broad-Based Socio-economic Mining Charter;
- Tourism Industry Empowerment and Transformation Charter;
- Petroleum and Liquid Fuels Industry BEE Charter;
- Financial Sector BEE Charter; and
- Broad-Based BEE Charter for Agriculture.

Except for the BBBEE Codes of Good Practice (RSA, 2007), a generic, balanced scorecard was created in order to ascertain progress made in achieving by businesses and sectors (BBBEE Codes of Good Practice RSA: 2007:11). The scorecard was implemented by the South African government to guarantee that the supplier that does business with government. In this case, the municipality is BEE compliant. Naudé (2009:213) and Hugo and Badenhorst-Weiss (2013:288) mention that achieving targets and verifying BEE scorecards remains a challenge for a certain group of suppliers. This therefore means that much more still needs to be done to achieve economic transformation, particularly of previously disadvantaged SMME suppliers. A study conducted in Mangaung by the Institute for Community Driven Development (2005:4) confirms that there are more (70%) male SMMEs than females (30%) (Dzansi and Tassin, 2014:60). Thus, more needs to be done to achieve economic transformation concerning disadvantaged SMME suppliers in particular the female category.

Fourie (2018:728) argues that it is clear that Section 217(1) of the *Constitution* (RSA, 1996) provides the basis for procurement SCM which requires that when organs of state in national, provincial and local government contract for goods and services it must be fair, equitable, transparent, competitive and cost-effective. Fourie (2018:730- 371) observed that Section 217(2) of the *Constitution* (RSA, 1996) provides the categories of preference in the allocation of contracts and bids. It was emphasised that in terms of Section 38(1) of *PFMA* (RSA, 1999), the National Treasury is mandated to issue a framework to all organs of state to give effect to the constitutional requirements as required in Section 217(1) of the *Constitution* (RSA, 1996).

Section 111 of *MFMA* (RSA, 2003) requires that each municipality and municipal entity must have an SCM policy to give effect to the above constitutional requirement. It was also emphasised that in terms of Section 119 of *MFMA* (RSA, 2003), the accounting officer and

any other official involved in procurement and SCM activities must meet prescribed competency levels of National Treasury. It is also clear that in terms of the *MFMA* (RSA, 2003), every municipality and municipal entity must adopt and implement a SCM policy. Lastly, in terms of the *PPPFA* (RSA, 2000) and *BBBEEA* (RSA, 2003), one could argue that the promotion of black economic empowerment, preferential treatment for previously disadvantaged individuals, the promotion of local or regional economic development and SMMEs suppliers are imperative. In the next section, the advantages of SCM are discussed.

2.5.10 Promotion of Administrative Justice Act (PAJA), 2000 (Act 3 of 2000)

The *Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000)* (hereafter referred to as *PAJA*, RSA, 2000) is the work of all organs of state, including municipalities and aims to make the administration effective and accountable to people for its actions. The Act deals only with administrative action or decisions that affect a person's rights negatively. *PAJA* (RSA, 2000), together with the *Constitution* (RSA, 1996), embraces the Batho Pele principles and promotes South African citizens' right to just administration (Fourie 2018:730). Section 33 of the *Constitution* (RSA, 1996) guarantees that administrative action will be reasonable, lawful and procedurally fair and it makes sure that people have the right to ask for written reasons when administration action has a negative impact on them. *PAJA* (RSA, 2000) ensures that administrators follow fair procedure when making a decision and clearly explains any decisions taken; allows relevant parties to voice their opinion before making any decision that might affect their rights; and informs people about any redress mechanisms in their apartment. If there is no internal appeal system, they must tell citizens of their right to ask the courts to review the decision and tell people that they have the right to ask for the reasons for any decision taken given to them in writing (Matolong 2015:17-18; Mokotedi 2016:26).

2.5.11 Construction Industry Development Board Act (CIDB), 2000 (Act 38 of 2000)

Infrastructure development and maintenance is a priority in South African government hence Ambe and Badenhorst-Weiss (2012:249) mention that the *Construction Industry Development Board Act, (Act 38 of 2000)* (hereinafter refer to as the *CIDB*, RSA, 2000) establishes the means by which the Board can promote and implement policies, programmes and projects. This includes those aimed at procurement reform, standardisation and uniformity in procurement documentation, practices and procedures. The Act further establishes the national register of contractors or suppliers for purposes such as management of public sector

procurement risk, facilitation of public procurement, registration of projects above a particular financial value of awarded and completed contracts as well as a best practice project assessment scheme. The *CIDB* (RSA, 2000) establishes a Code of Conduct for the parties engaged in construction procurement (Turley and Perera 2014:11; Matolong 2015:16; Maleka 2016:42).

2.5.12 National Treasury Preferential Procurement Regulations (PPR) of 2011, as amended by Preferential Procurement Regulations (PPR) of 2017

The revision of National Treasury Preferential Procurement Regulations (PPR) of 2011 (hereafter refers to as National Treasury, RSA, 2011c) was necessary when the former President Jacob Zuma's announced in the State of the Nation Address in 2015 that the South African government would set aside 30% of suitable categories of state procurement for procuring from SMMEs, cooperatives, and township and rural enterprises (National Treasury, RSA, 2011c).

The amended National Treasury Preferential Procurement Regulations (PPR) of 2017 (hereafter refers to as National Treasury, RSA, 2017a) came in to effect in April 2017 (National Treasury, RSA, 2017a). It focused on aligning the aims of PPPFA (RSA, 2000) and BBEEA (RSA, 2003) and introducing the BBEE scorecard, which inhibited the targeting of certain groups, instead focusing on broad-based black economic empowerment (National Treasury, RSA, 2011c). The amended PPR (RSA, 2017a) was intended to benefit targeted groups and SMMEs also classified as Exempted Micro-Enterprise (EMEs), Qualifying Small Enterprises (QSEs) in *BBEEA* (RSA, 2003) and the Codes of Good Practice (National Treasury, RSA, 2017a). Furthermore, the *BBEEA* (RSA, 2003) requires that goods and services be procured from a specific BBEE level, EME or QSE.

The amended PPR (RSA, 2017a) introduced key features aimed at using procurement to promote local industrial development, socio-economic transformation and the empowerment of small business enterprises, cooperatives, and rural and township enterprises (National Treasury, RSA, 2017a). In terms of the amended PPR (RSA, 2017a) at least 51% of the targeted group (ownership of SMMEs, or EMEs or QSEs) must consist of black people, including black people with disabilities, black women and those living in rural or underdeveloped areas or townships as well as black youth, black military veterans and cooperatives owned by blacks. It further required that organs of state of which municipalities cannot be excluded may elect to advertise bids by applying pre-qualification criteria aimed at

the empowerment of a bid having a particular minimum BBBEE level to EME or QSE and or tenderers that commit to sub-contracting at least 30% of the rand value of the contract to EME or QSE (National Treasury, RSA, 2017a).

In the sectors where there was a lack of transformation, due thresholds that were up to R1 million targeted groups will benefit from Regulation 6, where 20 preference points are used to evaluate quotations. Bids from R30 000 up to R50 million and BBBEE points for level 3 have been reduced from 16 to 14 to align with the amended codes. Regulation 7 of the amended PPR (RSA, 2017a) increased thresholds for ten (10) preference points for bids above R50 million and BBBEE points for level three have been reduced from eight to six to align with the amended codes (National Treasury, RSA, 2017a).

Regulation 9 requires that organs of state, where feasible, to identify bids that the successful bidder must subcontract 30% of the contract value for bids above R30 million to promote the categories of EMEs or QSE, which are 51% owned by either blacks; black youth; black women; black people with disabilities; black people living in rural or underdeveloped areas or townships; cooperatives owned by black people; and black people who are military veterans (National Treasury, RSA, 2017a).

Regulation 13 of the amended PPR (RSA, 2017a) allows cancellation of bids when changed circumstances resulting in the goods or services no longer being needed, non-availability of funds to proceed with procurement, no acceptable bid is received and there is material irregularity in the tender process such as the bids being lost get burned (National Treasury, RSA, 2017a).

2.6 ADVANTAGES OF SUPPLY CHAIN MANAGEMENT

Before South Africa's first democratic elections, the government procurement system was geared towards large and established contractors, and SMME suppliers found it very difficult to participate in government procurement (Ambe and Badenhorst-Weiss, 2012:2). Because of the later specific reforms that entail, amongst others, the introduction of a new system of procurement and asset disposal based on SCM principles was adopted and introduced after 1994. The introduced SCM system integrates demand management, acquisition management, logistics management, disposal management and SCM performance evaluation and control (Moeti, 2014:148-149; Ambe and Badenhorst-Weiss, 2012:245). In addition, Pauw *et al.* (2011:250) clarify the following advantages of SCM, namely:

- **To enable organisations to reduce costs.** Prices charged by SMME suppliers should be lower than those of large suppliers, because the overheads are not as high. In this manner it will enable public institutions to reduce cost of goods and services.
- **To add value, extend resources, accelerate time to delivery, and raise customer satisfaction:** This is achieved through maintaining long-term relationships with SMME suppliers (Hugo and Badenhorst-Weiss, 2013:300).
- **To improve delivery performance.** Thai (2009:193) avers that because services are only produced at the same moment as they are consumed furthermore, the manpower, equipment and other resources are available beforehand to ensure delivery at the moment the service is needed.
- **To raise productivity.** Giving specific attention to developing long lasting relationships with suppliers will bring about potential for improvements of on-time delivery of orders, completeness of orders, minimal complaints received, accuracy of order, which raises the productivity of both SCM office and SMME supplier (Pauw *et al.*, 2011:250).
- **To reduce inventory throughout the chain.** This is possible when supplier management, which forms part of enhanced procurement-management practices, functions effectively. Thai (2009:10) observes that it yields the benefit of wide knowledge of stock levels, material usage, lead times and eventually reduced inventory throughout the supply chain.
- **To improve forecasting.** Once supplier management, which forms part of enhanced procurement management practices, are managed effectively, it will assist in improving future estimates in terms of quantity, quality and price of goods, service and works to be procured.
- **To reduce the number of suppliers and shorten planning cycles.** Hugo and Badenhorst-Weiss (2013:291) is of the view that relationships with few developed suppliers shorten the planning duration. Thai (2009:11) observes further that, according to appropriation law, government agencies cannot spend until the budget is appropriated by the legislature and apportioned by the central budget office, since procurement is a long and time-consuming process. Contract planning begins with

few developed suppliers as soon as the need is identified to shorten the planning duration.

- **To improve quality of products to procure and take advantage of technologically advanced products.** According to Thai (2009:293), buyers and end users want to buy high-quality including technologically advanced goods and services at the lowest price that entails the best price for a reasonable quality from a reliable supplier. The latter can only be achieved through long-term relationship with suppliers. Hugo and Badenhorst-Weiss (2013:299) state that suppliers are the cornerstone of the successful procurement process; hence, supplier management integrated in SCM is a key ingredient towards improving quality of products to procure and take advantage of technologically advanced products.
- **Enhanced inter-operational communication and cooperation.** This would not be achieved if there were inadequate maintenance of close relationship with few good suppliers. Hence, supplier management is a prerequisite for efficient SCM and procurement management practice that will bring about enhanced inter-operational communication and cooperation, particularly in district municipalities.
- **Shorten repair times and enhance equipment readiness.** Thai (2009:613) points out that for the municipality to shorten repair times and enhance equipment readiness, suppliers must be developed and close relations be maintained with them, so that there is agreement between end user and supplier with regard to response time and costs of equipment maintenance and repair service, and response time and cost recovery for the disposal of surplus materials.
- **Receive information that is more reliable from developed suppliers in terms of pricing, cost reduction.** These suppliers form part of SCM, which enables municipal management to improve ability to do a SWOT analysis in the supply chain at the strategic planning stage, as well as achieve cost effectiveness and efficiency through informed procurement decisions.
- **Increase value-for-money and efficiency.** According to Thai (2009:144), increased value-for-money and efficiency can only be achieved through forming close relationships with developed suppliers. This forms part of SCM and procurement management practices and precedes all elements of SCM. These practices are viewed

by Thai (2009:144) as contributing to obtaining of best value at the lowest possible cost using a fair, equitable, and transparent contract award processes.

- **Improve risk allocation at the planning stage.** Thai (2009:396) further states that the government, including municipalities, operate through inadequate cash budgets and poor financial planning. As a result, they become unreliable business partners. Consequently, suppliers frequently suffer delays in receiving payment for goods and services supplied. Because of the latter, bidders sought to offset these risks by higher prices. This disregards the principles of prudent public finance management and is a major contributor to inefficiency, which can be addressed by enhancing SCM that forms part of procurement management practices in municipalities with cash-flow problems.
- **More opportunities for innovation.** More opportunities for innovation can be acquired through managing relationships with few reliable suppliers, which form part of augmented SCM and procurement management practices and an important factor in maintaining a competitive advantage (Hugo and Badenhorst-Weiss, 2013:291). Thai (2009:431) maintains that the potential advantage of competition between reliable suppliers is that it can bring new ideas and innovations, or create such pressure for suppliers to innovate, to remain an appropriate alternative for the buying organisation or the SCM unit or office.
- **Better-defined requirements.** According to Thai (2009:201), it is important for municipal management to develop suitable specification for acquisition of capital projects in particular. Thai (2009:201) further explains that the early involvement of successful strategic partnerships, including supplier management, will exhibit a high level of mutual trust, better project design, better quality solutions, extensive cooperation, a high level of information exchange and development of estimates of the full cost of a project. The latter is mostly needed by municipalities that face severe service delivery backlogs due to limited cash flow and awarding of contracts to inexperienced suppliers.

From the above discussion, it is clear that SCM which is an integral part of procurement has several advantages for municipalities. Not only it could improve delivery performance and raise productivity, reduce inventory throughout then supply chain, it could assist the municipality to improve forecasting and increase value for money and efficiency. The next

session considers categories of expenditure as part of SCM system to ensure efficient procurement management practices.

2.7 CATEGORIES OF EXPENDITURE AS PART OF SCM SYSTEM

Section 65 of the *MFMA* (RSA, 2003) requires the municipality to take a responsible decision when it incurs costs pertaining to different categories of expenditure such as capital and operating expenditure related to SCM. Pauw *et al.* (2002:234) maintain that expenditure categories should commensurate with procurement strategies, meaning rigorous procurement methods should apply on transactions that involve large sums of money. For more routine transactions, standing arrangements can be made with the selected SMMEs supplier to save time and costs of arranging bid regularly. It is therefore important for municipal management to instead of arranging bid frequently, short-term contract for selected SMMEs supplier to supply routine requisitions could be put in place and this should reduce advertising costs for municipalities. It is therefore important to clarify capital budget and as its sources as it precedes two categories of expenditure, namely capital and operating expenditure. The composition of a municipal capital and operational budget, budgeted capital expenditure and capital revenue are discussed in more detail in Chapter four of this study. This discussion focused more on expenditure categories related to SCM such as capital expenditure

2.7.1 Capital budget and capital expenditure related to SCM

According to Gildenhuis (2018:137-138) and Reddy *et al.* (2003:73), a capital budget refers to a plan for items that have an economic life of more than one year whereby large sums are invested in infrastructure, assets and machinery over a period greater than the period considered under an operating budget. Pauw *et al.* (2002:238) mention that capital budgeting requires clear and systematic decision-making processes to be in place. The process begins with the proposal to undertake a particular capital project or make a particular capital purchase. This proposal should arise out of an organisation's strategic plan and the MTEF exercises. It is then incorporated in the next annual budget as a capital expenditure item.

Chetty (2015:76) avers that it is imperative that, before investing in any expenditure, the management of the municipality determines the availability of budget. Chetty (2015:76) further provides that capital budget can be seen as a budget for the construction or acquisition of fixed assets, whereby the main sources of revenue for capital budgets are from municipal infrastructure grant allocations received in terms of the *DoRA* appropriated proportionately

yearly. Chetty (2015:76) maintains that the main grants allocated to municipalities to fund their capital projects are the Municipal Infrastructure Grant, Urban Settlement Grant, Municipal Water Infrastructure Grant, Public Transport Infrastructure Grant, Rural Road Asset Management System Grant, Rural Household Infrastructure Grant, Neighbourhood Development Partnership Grant, Integrated Cities Development Grant, Integrated National Electrification Grant, Regional Bulk Infrastructure Grant, and Municipal Disaster Recovery Grant. Other secondary sources of revenue to fund capital expenditure come from borrowing, which should be thoroughly thought of as that the interest charges thereof further cripple the limited cash flow that is critically needed to pay piling unpaid invoices of suppliers in municipalities.

According to Reddy *et al.* (2003:73), municipalities use large shares of its money on SMME suppliers for procurement of capital expenditure such as infrastructure (machinery, equipment, buildings, vehicles) for its communities. It is therefore vital to ensure that public procurement processes are economical, efficient and do not overlap beyond the Medium-Term Expenditure Framework (MTEF). In terms of Section 19(1)(a) of *MFMA* (RSA, 2003), a municipal manager may spend money on a capital project only if it was appropriated in the budget of that particular financial year. Section 17(2) of the *MFMA* (RSA, 2003) provides that the budget has to be divided into capital and an operating budget to ensure that funds are available throughout the project. One could argue that adherence to the above statutory requirements should ensure proficiency in municipal financial management; yet, municipalities have defaulted on prompt payment to their suppliers and other creditors thereby delaying service delivery to the communities, clearly indicating the need to enhance procurement management practices particularly in the district municipalities.

Gildenhuys (2018:138) concurs that once the municipality has established the capital expenditure to be procured during municipality strategic planning session, it would be imperative to ensure that the need is being budgeted for and thereafter decide on the procurement strategies that would create opportunities for SMME suppliers to grow the economy and create jobs.

According to Reddy, Sing and Moodley (2003:73), capital expenditure are expenses incurred for the acquisition of land, other physical assets, intangible assets, government stocks, and non-military, non-financial assets, of more than a minimum value, with an expected lifetime of more than one year. In this regard, Pauw *et al.* (2002:239-240) are of the view that capital

expenditure involves replacing of obsolete capital equipment and an investment that is intended to extend infrastructure or fixed assets in order to expand the productive capacity of an institution. Once these expenses have been acquired, they increase the productive capacity of the economy as a whole hence it is important before and on delivery ensure that they are bar-coded, safeguarded and maintained to ensure that they attain their useful operating lives. Pauw *et al.* (20002:239-240) further argue that assets with enormous values lie in the corridors of municipal premises without an approved removal permit, which clearly indicates the need to address wastefulness in municipalities, and which forms part of enhanced procurement management practices and asset control.

Pauw *et al.* (2002:289) are of the view that before investing in capital expenditure, municipal managements need to undertake a thorough needs analysis and cost-benefit analysis to establish whether the planned expenditure offers an adequate social or economic return. This can begin by firstly undertaking a systematic analysis of a particular need and its potential solution. Furthermore, the municipality must establish the quantify and the various costs of the solution and lastly evaluate and establish the potential benefits of each alternative and list all benefits. Pauw *et al.* (2002:239) further caution that much capital expenditure that seems necessary are shown to be not so necessary once management embarks upon cost-benefit analysis. The latter can save millions of rand of wasteful and fruitless expenditure. Pauw *et al.* (2003:239) further point out that the analysis will be beneficial to address inefficiencies in the public sector. It will also assist a public sector institution or organ of state to address intangible potential benefits that can be difficult to evaluate as market prices are used to evaluate the cost benefit side of analysis. However, during decision-making, due consideration should be given to intangible social or environmental benefits, even no monetary value is attached to it. Thus, it is important for municipalities to take full advantage of such a cost benefit analysis to reduce costs and to save costs for the timeous payment of creditors and contracted suppliers that form part of enhanced procurement management practices. The procurement methods of capital expenditure are outline below.

2.7.2. Procurement methods of capital expenditure

Section 19 of the Draft Public Procurement Bill (RSA, 2016:15) states that a procuring entity, in this case district municipality must procure goods, services and other objects of procurement through open competitive bids. In circumstances where it is impractical to invite open competitive bids, the municipality may procure by means of limited competitive bids and

deviate from the use of limited competitive bids, using a single-source selection for emergency procurement and petty cash in instances where single-source selection will be of great value to the municipality. The Draft Public Procurement Bill (RSA, 2016:17) mentions that procurement of assets may also be procured from another organ of state whereby transfer documents and costs are clearly recorded in appropriate journals to maintain prudent principles of financial management, which is evidently less instances of fruitless and wasteful expenditure due to interest paid as a result of late payment to suppliers. Electronic Procurement (e-Procurement) is another method of procurement identified by OCPO, which will be discussed in more detail in Section 2.8 of this chapter.

Procurement through transversal contracts is another method of procurement that OCPO has already implemented in which there are centrally negotiated 40 contracts of which the following are up and running, and others in the pipeline. The OCPO observes that procurement of the services below is fragmented across all organs of government, which results in replication of effort and different pricing models. The OCPO is exploring on centrally negotiating prices that will reduce prices. The National Treasury (RSA, 2016d:2-3) outlines the following examples of centrally negotiated contracts. Therefore, municipalities are encouraged to participate in the transversal contracts arranged by OCPO.

- Fixed line, mobile, data and communication;
- Standardised school plans;
- Learner support (LTSM); and
- Travel and accommodation which is expected to yield savings of R1 billion annually.

However, the OCPO has observed though the transversal contracts yield savings per year, there is already a culture of non-payment of creditors by government in particular municipalities of the Free State. This situation of late or non-payment poses a major risk to all industries, particularly suppliers that do business with government. The OCPO further divulges that currently outstanding creditors are in excess of R600 million, some amounts dating back two years (National Treasury, RSA, 2016d:2). Hence, this study advocates the enhancement of efficiency in SCM as part of procurement management practices, particularly in all district and affiliated municipalities of the Free State Province. (National Treasury, RSA, 2016d:2).

The National Treasury (2016d:4) points out that new contracts negotiated centrally over the next three years should include the following;

- Banking services; ICT Infrastructure and services, desktops and laptops;
- Health technology; and
- Leasing and accommodation.

The National Treasury (2016d:3) further outlines the following benefits of centrally negotiated contracts as outlined by OCPO:

- To eliminate unnecessary duplication, reduce leakage and ensure better utilisation of scarce procurement skills;
- To reduce the administrative burden for suppliers and result in policy consistency;
- To provide an opportunity for long term suppliers relationships and certainty in the market place;
- To provide an opportunity for market intelligence across government;
- To reduce the administrative burden government has with repetitive quotes which could have been directed towards contracts, and
- To allow government to refocus on contract management.

Notwithstanding the above view of OCPO, it is important to shed light on the meaning of centralisation. Thai (2009:10) explains that centralisation occurs when all the rights, powers, duties and authority relating to public procurement are vested in a central official. In the case of municipalities, all powers taken from the accounting officers are then vested in OCPO, resulting in repealing Sections 60 of *MFMA* (RSA, 2003) and other legislations. Thai (2009:43) observes further that the disadvantages of centralised purchasing stem from any suboptimal relationships that may develop between the central procurement office and the clients it serves, which might include:

- Lack of sensitivity to the unique priorities and operational realities of different user departments;
- Insufficient engagement of the central procurement office in the operational planning process;

- User departments' possibility of bypassing blanket agreements negotiated by purchasing because specific commodities are not included, thereby foregoing any advantage of consolidated procurements;
- Overall increased processing time of requisitions; and
- Possible difficult procurement and project schedule coordination as the central procurement office has its own priorities and the project manager has his or her tight project completion timetable.

Although there are certain benefits of a centralised procurement office as indicated above procurement in the South African context is decentralised as explained in Section 2.2 and 2.3 of this chapter and therefore each municipality has its own procurement office.

From the above it is clear that in terms of Section 19 of the Draft Public Procurement Bill (RSA, 2016:15) the municipality as the procuring entity must procure goods, services and other objects of procurement through open competitive bids. However, the Auditor-General reported that a total of 86% of municipalities have not comply with key legislation. A concern is that a total of 67% of municipalities were involved in uncompetitive and unfair procurement process, due to the fact that most municipalities have not invite quotations or competitive bids (AGSA, RSA, 2017:2-15).

2.7.2.1 Competitive bidding to procure capital expenditure

A competitive bidding process should be followed when the municipality procures capital expenditure, as potential SMME suppliers rely on municipal management to keep their contract award decisions aligned with the principles of procurement, which is fair, equitable, competitive, cost effective and transparent (Fourie and Opperman, 2017:374). However, these competitive bidding processes will only be fully realised when all potential suppliers intending to do business with the municipality had experience of the goods, services and work to be tendered.

In addition to the above, the National Treasury (RSA, 2005a:55) prescribes that for long-term contracts, the estimated transaction value of R200 000,00 (VAT included), competitive bidding processes should be applied. In terms of Section 2 of the *PPFA* (RSA, 2000) and Section 111 of the *MFMA* (RSA, 2003) the SCM policy of the municipality should clearly indicate the process for competitive bidding.

Fourie and Opperman (2017:373) aver that it is important for the management of the municipality to stipulate procurement methods to be applied clearly for which transaction values in the SCM policy and be strictly adhered to during decision to award a bid. Furthermore, the budget for the following financial year is affected by the projects that overlap to years in the outer MTEF period, clearly indicating the need to address inefficiencies in procurement management practices, particularly in the district municipalities.

2.7.2.2 Process for competitive bidding of capital expenditure

According to Palama (RSA, 2008:10-11), the process for competitive bidding entails effective planning and preparation for the invitation of bids which, is a very important function in municipal procurement as it determines the kind of supplier to be awarded contract and ultimately the kind of service delivery to the communities. The National Treasury (RSA, 2005a:35) provides that municipalities have to promote the constitutional principles, namely to ensure fairness, equity, transparency, competitiveness and cost-effectiveness with all SCM and procurement practices including the selection of a suitable suppliers. The different stages of the bidding process entail the following, the compilation of bid documents, bid specification; invitation of bids; site meetings or briefing sessions, receiving of bids; evaluation of bids; clearing successful bidders and awarding contracts; administration of contracts and proper record keeping which are outlined briefly below (National Treasury, RSA, 2005a:35; Palama, RSA, 2008:10-11). For the purpose of this study, the compilation of bid documents and bid evaluations are discussed in more detail in Chapter three of this study.

- **Compilation of bidding documentation.** Section 2 of the *PPFFA* (RSA, 2000) spells out clearly what aspects should be covered during bid specifications and compilation of bid documents. Furthermore, the bidding documents should be compiled in accordance with the relevant directives inclusive of the General Conditions of Contract and any Special Conditions of Contract if specified, and the standard bidding documents to create an environment that enables potential suppliers to submit economical and efficient bid document (Khalo, Vyas-Doorgapersad in Van der Waldt *et al.*, 2018 252).
- **The public invitation of bids.** Palama (RSA, 2008:2) states that the public invitation of bids is an act of providing all potential suppliers with timely, adequate and equal opportunity to bid for required goods, services and works to increase the participation

of small medium and micro-enterprise suppliers in the government procurement. Municipal management concurrently publicise the invitation in the Tender Bulletin and/or press as well as on e-Tender, where bid documents are made available to potential suppliers free of charge. National Treasury (RSA, 2016d:7) states that initiative from OCPO is envisaged to save the government and municipalities millions of rand a year on advertisement and printing costs. However, no amount of savings will address inefficiency, unless SCM is enhanced as part of procurement management practices, particularly in district municipalities. Pauw *et al.* (2011:236) provide that potential suppliers submit their offers by completing the tender documents according to the specifications that are executable, formulated accurately to reflect the needs of the end-user and functional criteria stated by municipal management whereby price contained in the bid documents determine the potential supplier to be awarded contract. The tender documents form the basis of the contract between the supplier and the municipality. Potential suppliers should adhere to the closing time and other requirements for the submission of tenders, since late submission disqualifies the potential supplier, which clearly indicates the importance of adhering to procedural issues. However, if potential suppliers lack experience in these matters, the solution would be to challenge the processing of the tenders legally with which South African courts are inundated. The single recourse is to improve the efficiency of SCM as part of procurement management practices to ensure the supplier base is developed (Palama, RSA, 2008:2; Pauw *et al.*, 2011:236; Hugo and Badenhorst-Weiss 2013:292; National Treasury, RSA: 2016d:7).

- **Site meetings or briefing session.** Palama (RSA, 2008:4) indicates that site meetings or briefing sessions are the sole responsibility of the end user to clarify existing issues in the bid document and the new issues. Specifications that were not included in the bid document cannot be added during the briefing session. Palama (RSA, 2008:4) further provides that at the date, time and place to be determined by the end user during the site meeting or briefing session, the attendance register is completed, and the parties seek clarity on questions. It is important to indicate that during site meetings or briefing sessions, experienced and established suppliers point out issues that show inadequacy on specifications, which at times forces the end user to raise new issues, resulting in making material changes to the scope of work (Section 20 of National Treasury, RSA, 2005a). This has opened many municipalities to litigation, which

clearly indicates the need to address inefficiencies in procurement management practices.

- **The handling of bids submitted in response to the public invitation.** Palama (RSA, 2008:7) further states that municipalities should open all bids, including those of emerging potential suppliers, at the stipulated time and place and in public. This increases potential suppliers' confidence to compete with large and established suppliers for government procurement and, if requested and practical, particulars of each tender must be made public and the total amount of each bid be read aloud and entered into an official tender register. It must be made available for public inspection and the contents of the register and bid results be published on the website of the municipality. Bizana and Naudé (2015:9) emphasise the need to keep the official tender register for audit purposes. Bizana and Naudé (2015:9) further mention that if emerging potential suppliers were not developed prior to being afforded an opportunity to bid, municipalities would still be faced with incomplete projects, due to lack of experience, which can be addressed by enhanced procurement management practices (Palama, RSA, 2008:7; Bizana and Naudé, 2015:9).
- **The evaluation of bids.** The evaluation of bids is the phase where, in the case of large, complex capital projects, a two-stage bidding process is followed whereby technical proposals as well as prices are considered by the bid evaluation committee composed of the end user of the function involved. An official from finance such as the chief finance officer (CFO), the SCM head, a legal person, and technical representatives nominated by the manager of the function involved are all appointed in writing by the municipal manager. Approval of bid specifications, the preference points system as stipulated in bid documents and evaluation criteria, which clearly stipulate the requisite ability of potential suppliers are the responsibility of the municipal manager. Hugo and Badenhorst-Weiss (2011:257) maintain that during this lengthy evaluation process, the municipal management can assign a CFO to assess and compile recommendations. Core Focus (2015:25) provides that the bid evaluation committee needs to allocate points for quality/functionality thereafter points for price. The lowest price offer must be allocated the highest points as per the evaluation criteria. The price offer points and preference points should be included. The bid evaluation committee should calculate the total points to determine the highest-scoring potential supplier,

who must be recommended for assessment. The bid evaluation committee must also confirm whether the recommended supplier is not in arrears with municipal rates and taxes and submit for award by the bid adjudication committee (Fourie and Opperman, 2017:378; Core Focus, 2015:25). In addition, Pauw *et al.* (2011:236) clarify the importance of an attendance or oversight process by a neutral or independent observer appointed by the municipal management to ensure fairness and promotion of transparency. The relevant bid evaluation committee officials will evaluate the tenders and decide on a winner. These officials take the quality, suitability, price and abilities of the bidder into account when they choose the winning supplier. The bid evaluation committee scores each proposal by comparing it to a predetermined set of benchmarks. Fourie and Opperman (2015:378) point out that it is important to indicate that if the evaluation committee is not satisfied with the above prior award, there can be no improvement and efficiency in service delivery, which can only be enhanced by incorporating supplier management as part of SCM and procurement practices, particularly in district municipalities (Pauw *et al.*, 2002:236; Fourie and Opperman, 2015:378).

- **The award of contracts.** According to Core Focus (2015:19), the award of contracts is the critical stage where the SMME potential suppliers rely on the adjudication committee to ensure that the bid process followed throughout the procurement process and during decisions to award the contract was fair, equitable, transparent, competitive, cost-effective and conducted according to the approved specification and evaluation criteria to increase the participation of SMME suppliers in the government process. Rambe and Makhalemele (2015:4) observe that SMME suppliers have a lifespan of less than five years, which indicate the necessity to enhance the efficiency of SCM as part of procurement management practice in all district municipalities to advance the economy and create jobs in the communities (Core Focus, 2015:19; Rambe and Makhalemele, 2015:4).

Except for the above, National Treasury (RSA, 2005a:50) mentions that the bid adjudication committee should be comprised of cross-functional, high-level, skilled, trustworthy members. Hugo and Badenhorst-Weiss (2002:290) maintain that the bid adjudication committee should, pending the delegation, consider recommendations made by the evaluation committee and make the final award of the bid, or make a

recommendation to the accounting officer, who ensures that contracts are not awarded to potential SMME suppliers with limited resources, such as capital, equipment and human resource. However, because there are incomplete and poorly completed projects in the communities of the Free State Province, one could argue that there is a need to augment procurement management practices, and the bidding process, particularly in the district municipalities of the Free State Province (Hugo and Badenhorst-Weiss, 2002:290; National Treasury, RSA, 2015a:50).

- **Proper record keeping.** Palama (RSA, 2008:18) is of the view that proper record keeping is the responsibility of the management of a municipal to ensure that the SCM unit or office keep and safeguard all SCM documents received pertaining to the concluded contract for audit purposes. Furthermore, monitoring of deliverables based on the signed contract is the responsibility of the municipal management.

In light of the above discussion the appointment of bid committees and the handling of bids must take place in accordance with SCM policies and regulations. A concern is that the Auditor-General reported that the areas with consistently the highest non-compliance were the prevention of irregular expenditure, procurement and contract management (AGSA, RSA, 2017:2-15). There was an increase in material non-compliance findings concerning SCM legislation and regulations from 63% in 2014-2015 to 73% in 2016-2017. Furthermore, a total of 33% of municipalities were in non-compliance with contract management requirements, which means that these municipalities have not monitored the performance of contractors on a monthly basis or they use inadequate contract performance measures to monitor its performance. Findings on uncompetitive and unfair procurement processes were found at 81% of municipalities, of which 67% of municipalities was material non-compliance. A total of 44% did not invite quotations or competitive bids as required in key SCM legislation and regulations. In a total of 38% of municipalities the preference point system was not applied or it was incorrectly applied. The Auditor-General further warns that prohibited awards to other state officials Another concern is that a total of a total of 21% of municipalities issued prohibited awards to municipal employees or Municipal councillors, while a total of 41% of municipalities issued awards to close family members of municipal employees (AGSA, RSA, 2017:30). In particular, in the Free State Province the Auditor-General reported that the most common instances of irregular expenditure were related to competitive bids not being invited, bid adjudication committees were not being composed effectively and contracts were secured

by other organs of state without meeting the requirements of SCM legislation and regulations. Thus, the continued disregard of SCM legislation and regulations is a concern in particular the Free State Province, it creates an environment open to misappropriation, wastage and abuse of state funds (AGSA, RSA, 2017:56). The aim of National Treasury PPR (RSA, 2011c) and the PPR (RSA, 2017a) is to support the socio-economic transformation of the country, but it seems that municipalities are failing to correctly applied SCM legislation and regulations including the competitive bids, preference point system, and to procure certain commodities from local producers to support the socio-economic conditions of the region (National Treasury, RSA, 2011c; National Treasury, RSA, 2017a).

2.7.3 Operational budget and operating expenditure of day-to-day or routine purchasing

According to Fourie and Opperman (2015:141-143) the operating or operational budget of the municipality consists of the estimates of operating revenue and the operating expenditure. Operating expenditure refers to expenditure or operating expenses related to the provision of services or the provision of benefits that are immediately consumed. Fourie and Opperman (2011: 341-342) and Gildenhuis (2018:141) maintain that operating expenses of the municipality refers to expenses such as salaries, allowances, general expenses including bulk purchasing of water and electricity, transports, legal fees, and rentals, repairs and maintenance of fixed assets, depreciation of fixed assets, transfers and grants, contributions to provisions for bad debt, appropriation of revenues to capital and operating reserves.

Operating expenses include supplies, utilities, maintenance, communications, transportation, information technology, training, required publications, professional services, law enforcement, fire protection and street maintenance (National Treasury, RSA, 2009b:128). Another important aspect is that whenever maintenance or repairs are done, the supplier does not paint over or damage the barcode labels; yet assets of huge values have obscured codes, which indicates the need to address asset control, forming part of enhanced procurement management practices, particularly in the district municipalities (National Treasury, RSA, 2009b:12).

Fourie and Opperman (2011: 341-342) and Gildenhuis (2018:141) state that the SCM Policy in accordance with the National Treasury (RSA 2005b) of the municipality should clearly indicate methods of incurring operating expenses such petty cash purchases, written and verbal

quotations, formal written price quotations, and a list of accredited prospective suppliers, which are briefly discussed below.

2.7.3.1 Petty cash purchases

Fourie and Opperman (2017:373) state that Petty Cash purchases and the conditions under which they must be carried out must be stipulated clearly in the municipality's SCM policy. Section 12 of the National Treasury (RSA, 200b) outlines that petty cash purchases must not exceed R2 000, including VAT, and municipal management is required by law to put measures in place to ensure economic use of this desperately needed cash to settle the growing list of outstanding creditors.

2.7.3.2 Written and verbal quotations

According to Section 12 of the National Treasury (RSA, 2005b:13), procurement through written and verbal quotations need to be stipulated in the municipal SCM Policy for procurement between R2 000 and R10 000, including VAT. In this regard, Fourie and Opperman (2017:374) explain that it is important to keep records of any additional information and conversation engaged with the potential supplier to ensure transparency and fairness. In most cases municipal management does not keep records of conversation held with suppliers, which delays prompt payment of invoices.

2.7.3.3 Formal written price quotation

Fourie and Opperman (2015: 374) affirm that the conditions for the procurement of goods and services through formal written price quotations. Quotations must be obtained in writing from at least three different providers whose names must appear on the list of accredited suppliers. The National Treasury (RSA, 2005:13) further requires that formal written price quotation as another method of procuring operating expenditure with the value between R10 000 and R200 000 including VAT, must be clearly indicated in all municipalities SCM policies (Fourie and Opperman, 2015: 374; National Treasury, RSA 2005b:13).

According to the National Treasury (RSA, 2005b:17), for procurement above R30 000, including VAT, the request for quotations should be sent to a minimum of three qualified suppliers who are listed on the CSD. The CSD must clearly outline the required information including the suppliers' Tax Compliance Status (TCS) Pin obtained from SARS, which replaced Tax Clearance Certificates (TCC) as of 1 July 2016. The TCS pin authorises

municipalities to verify the potential suppliers' tax status on either e-Filing from the SARS website or the CSD to ensure tax compliance before any awards may be issued to any supplier. Municipalities must further verify on the CSD that a potential supplier is not a government employee, or has not been in the employment of state in the last 12 months, is not a tender defaulter, and is not related to any of the committee members to decide on the award of contract (National Treasury, RSA, 2005b:17). In this regard Mantzaris and Pillay (2015:326) aver that 34% of the contracted suppliers were not tax compliant, which poses a risk and exacerbates the predicament of non- or late payment of these suppliers until their tax matters are settled with SARS. In addition, Van der Waldt *et al.* (2018:245) maintain that after potential suppliers have submitted the required quotation and necessary attachments, municipal managements need to keep their decisions aligned with the principles of cost-effectiveness to ensure that there is enough cash to rescue the growing list of outstanding creditors. The list of accredited suppliers to procure goods and services was discussed in Chapter three of this study.

2.8 E-PROCUREMENT

Thai (2009:35) Sanderson, *et al.* (2015:xvii) observed that public procurement continues to evolve conceptually and organisationally, including technologically. The evolution accelerated more than two decades ago as governments at all levels came under increasing pressure to do more with less. Hence, it is important that municipalities should be at the forefront to augment procurement management practices continually that incorporate e-Procurement, as municipal managements spend a great portion of budget on acquiring goods, services and capital assets meant to improve the quality of lives of its citizens and those of SMMEs suppliers doing business with government (Thai 2009:35). Part 3 of the Draft Public Procurement Bill recommends the use of electronic systems such as e-Procurement.

According to McConnell (2009:11), it is vitally important that e-Procurement is defined clearly and unambiguously to avoid any confusion, mainly because e-Procurement is a high-cost activity, particularly in government. McConnell (2009:11) further avers that there is a need to highlight mechanisms for delivering e-Procurement such as electronic data interchange (EDI), e-sourcing, e-tendering, e-informing and e-collaboration, which provide a comprehensive definition of e-Procurement. It is also important to mention that most literature on e-Procurement focuses more on the private than the public sector.

McConnell (2009:13) defines e-Procurement as the integration, management, automation, optimisation and enablement of an organisation's procurement process, using electronic tools and technologies, and web-based applications. Hugo and Badenhorst-Weiss (2013:224) explain that e-Procurement entails all digital-web-based solutions aimed at supporting purchasing transactions and supply processes, internal and external electronic data interchange (EDI), functional and cross-organisational integration, and the promotion of relationship management. Fernandes and Vieira (2015:589) observe that for organisations to remain competitive in the market, they must reduce the costs of their components, materials and services by sourcing from least-cost suppliers whereby one method to achieve it is through open bidding via internet. This migration of procurement functions to internet is known as e-Procurement.

Vaidya, Sajeev and Callendar (2006:73) state that some of the commonly used e-Procurement tools in the public sector include the following: e-Tendering, e-RFQ, e-Auctions, e-Catalogues and e-Invoicing. These e-Procurement tools, including complete marketplace technologies, have been developed by the key players in the e-Procurement market such as Ariba, CommerceOne, Oracle and SAP. Vaidya *et al.* (2006:73) further argue that regardless of the various shapes and sizes of e-Procurement systems in the market, basic procurement processes are the same across the public sector and can be addressed with straightforward technology to automate standard processes.

According to Chopra and Meindl (2013:65), many technologies exist to share and analyse information. Managers must decide which technologies to use, and how to integrate these into their SCM and procurement processes. Some of these technologies include the following:

- **Electronic data interchange (EDI).** Electronic data interchange technology was developed in the 1970s to facilitate the placement of instantaneous, paperless purchase orders with suppliers. It did make transactions faster and more accurate than when they were paper based (Chopra and Meindl, 2013:65).
- **The Internet** conveys much more information using a standard infrastructure allowing supply chains to improve both efficiency and responsiveness. The beginning of the 21st century has seen the internet becoming the dominant medium of communication, which links the supply chain from suppliers to customers (Chopra and Meindl, 2013:65).

- **Enterprise resource planning (ERP).** Enterprise resource planning systems provide the transactional tracking and global visibility of information from within a company and across its supply chain. Furthermore, ERP keeps track of information, whereas the internet provides one method with which to view this information (Chopra and Meindl, 2013:65).

In the light of the above, Chopra and Meindl (2013:65) argue that SCM software uses the information in ERP systems to provide analytical decision support in addition to the visibility of information. ERP systems show a company what is going on, while SCM systems help a company decide what it should do.

Hugo and Badenhorst-Weiss (2013:224) state that the main tasks of e-Procurement include the following:

- the support for basic transactions such as requisition, ordering and payment;
- facilitating processes like supplier selection, value analysis and performance evaluation;
- enhancing advanced applications such as cross-functional and cross-organisational cooperation and integration; and
- assisting in relationship management.

Fernandes and Vieira (2015:589) are of the view that e-Procurement is an “umbrella term” that encompasses elements such as electronic ordering, internet bidding, purchasing cards, reverse auctions and integrated automatic procurement system, whereas McConnell (2009:13) maintains that e-Procurement consists of the following:

- e-Notification involves an organisation electronically notifying potential suppliers of a future tendering opportunity.
- e-Tendering means that an organisation having the capability to electronically receive tender submissions from potential suppliers.
- e-Awarding involves secure tender opening, tender evaluation and tender award. e-Awarding will allow the procurement office to open only those tenders that have been submitted by the closing date and time.

- e-Contracting involves the establishment of an agreement with a supplier and can arise as a result of the e-notification, e-tendering and e-awarding stages. McConnell (2009:13) explains that e-Contracting can arise through other technology solutions, such as e-Auction, which involves suppliers bidding for the supply of goods based on a tender specification prepared by an organisation.
- e-Ordering involves an organisation raising orders of agreed contracts or catalogues and the transmission and acceptance of these by suppliers (McConnell, 2009:13).
- e-Invoicing involves that an organisation electronically receives invoices from their suppliers. e-Invoicing also allows the organisation to match the purchase and goods received note electronically and make electronic payments via a Bank-Automated Clearing System (BACs). McConnell (2009:13) further avers that the electronic payment of suppliers (via BACs) has been identified by many organisations as a “quick win” in relation to e-procurement. Thus the above e-Procurement approaches indicate the need to automate current manual processes.

Pauw *et al.* (2002:233) suggest every government organisation, including municipalities, should explore opportunities to meet procurement obligations, including payment of suppliers through e-Procurement. Whereas, Hugo and Badenhorst-Weiss (2013:224) emphasise that e-commerce forms part of e-Procurement and is an electronic system used to reduce the administrative workload of payment to suppliers and enhance relationship management with suppliers. The National Treasury (RSA, 2016e) mentions that Free State municipalities have the highest percentage of outstanding creditors greater than 90 days at 82.6%. This indicates the need for municipalities to utilise the e-Procurement system to assist with this huge backlog. Furthermore, municipalities were mandated by the National Treasury (RSA, 2005a:52) to acquire authorisation from the Municipal council before introducing e-Procurement methods.

In the light of the above, the OCPO was mandated by National Treasury to revamp procurement processes in government departments, municipalities and public entities. As a result, OCPO initiated the e-Tender portal as a first step towards implementing government e-Procurement system, whereby municipalities are expected to start using the e-Tender portal from 1 July 2015, of which district municipalities cannot be excluded. The National Treasury e-Tender portal publicises tender notices, tender documents, terms of reference and tender specifications and decisions made on award amongst other things. However, the e-Tender portal indicates

that Free State municipalities utilise the system at a snail's pace. McManus (2002:2) is of the opinion that the slow pace of e-revolution implementation, which includes e-Procurement, is an indication of municipalities' inefficiency and ineptitude. Fernandes and Vieira (2015:590) point out that it is important for the management of municipalities to employ e-Procurement systems to decrease acquisition costs and increase process efficiency. Furthermore, in addition to the above, municipal management faces persistent failure to adhere to statutory requirement of settling creditors and suppliers with 30 days from receipt of invoice, which clearly indicates the need to enhance procurement management practices, particularly in the district municipalities.

Wisner, Tan and Leong (2012:46) are of the opinion that the traditional manual purchasing system is a tedious and labour-intensive task of issuing material requisitions and purchase orders. As a result, Vaidya *et al.* (2006:73) observe that the use of the internet in e-Procurement provides several advantages over earlier inter-organisational tools, such as EDI, which has been providing automated purchasing transactions between buyers and their suppliers. EDI was launched in the 1960s and Enterprise Resource Planning (ERP) was launched in the 1970s, while the commercial use of the internet commenced in the 1980s. It was only in the 1990s that the World Wide Web multimedia capability of the internet became widely known. The World Wide Web enabled and provided the essential resource for the automation of procurement. The introduction of the internet has brought about many benefits. Jooste and Schoor (2009:2) mention that the initial scepticism about the business benefits of e-Procurement is now replaced by recognition of the value of e-Procurement for organisation, be it through process improvements, improved management or actual cost savings. Wisner *et al.* (2012:46) further maintain that internet-based e-Procurement systems have changed the infrastructure requirement, making it readily affordable to most organisations, of which the public sector and in particular municipalities cannot be excluded.

Wisner *et al.* (2012:46) suggest the following benefits of e-Procurement, which will amongst others assist in generating desperately needed cash flow to aid the ever-growing list of unpaid suppliers and creditors of the public sector, in particular municipalities and district municipalities. The benefits include the following:

- **Cost savings**, according to Fernandes and Vieira (2015:589), are the primary benefits of the e-Procurement system. McConnell (2009:24) adds that casting the net wide brings about costs saved in terms of reduced price of goods and services due to

competition, while Hugo and Badenhorst-Weiss (2013:22) are of the opinion that lower prices are realised through product standardisation and the consolidation of purchase power, reduced administration costs and reduced inventory costs. In this case, municipal management will realise lower prices of goods and services whereby more potential suppliers can be contacted to increase competition; reduced inventory costs due to the ability to purchase on a more frequent basis; while lower administrative costs will also be realised. Hugo and Badenhorst-Weiss (2013:22) further maintain that in the case of municipalities that face severe cash-flow constraints, which result in late payment to creditor and infrastructure maintenance backlog will benefit from the implementation of e-Procurement, which forms part of augmented procurement management practices.

- MacManus (2002:11) drew from the conclusions of the survey undertaken by various researchers that those organisations that already used e-Procurement show the saved time in this regard. MacManus (2002:11) mentions that 85% of the respondents indicated that they saved in time, while 75% cited “reduction in costs”. MacManus (2002:11) further provides similar results surfaced from another study, whereby 35 government departments and local government purchasing directors claim that by using the internet to purchase, 54% of respondents mentioned lowered paper/printing costs, 49% cited saved postage/ mailing costs, while 43% alluded to quicker response/turnaround time. This is an indication that e-Procurement assists government departments and municipalities to save time and money.
- **Time saving or reducing purchasing cycle time.** Hugo and Badenhorst-Weiss (2013:224) are of the opinion that although procurement processes such as collecting, sorting, reviewing and comparing Request for Quotations (RFQs), are labour-intensive and time consuming processes, data can still be updated quickly and results can easily be make available online. Hugo and Badenhorst-Weiss (2013:224) aver that by using the manual purchasing system, a typical organisation may have to sort and match hundreds of bids on a daily basis. e-Procurement systems assist organisations not only to eliminate the non-value adding collection; they also quickly sort out various activities. Duplication of data entry furthermore purchase order is eliminated since the information can be extracted from the RFQ, originally entered by the user. Thus, e-Procurement eliminates duplications of data.

- **Accuracy.** According to Hugo and Badenhorst-Weiss (2013:224), accuracy is realised where the system eliminates double-key inputs made by the end users. The system also enhances the accuracy of communications between the SCM office and suppliers. Hugo and Badenhorst-Weiss (2013:224) further point out that in this way, more up-to-date information about suppliers is more readily available online. This allows municipalities management to assess their options before making a decision concerning a purchase requisition.
- **Real time.** Hugo and Badenhorst-Weiss (2013:224) state that real time allows the SCM office to have access to the purchase requisition once it is prepared. Once the purchase requisition is processed, the buyer can post the bid instantly instead of waiting to contact all the suppliers individually to alert them of the bids. Furthermore, the system will enable municipalities to initiate bids and suppliers as well as to respond in real time on a 24/7 basis. Thus, the municipality has instant access to requisitions and of information of all suppliers.
- **Mobility** allows SCM offices to submit, process and check the status of bids, as well as communicate with potential suppliers, regardless of the municipal management geographical location and time of day. Thus, the e-procurement system is highly flexible.
- **Track ability** allows end-users and buyers to track each purchase requisition electronically through the process from submission, to approval and finally conversion to a purchase order. Moreover, audit trails can be maintained for all transactions in electronic form. Tracing an electronic bid and transaction is much easier and faster than tracking per trails. Buyers and suppliers can ask for additional information online, leave comments, or indicate whether they are interested in bidding (Hugo and Badenhorst-Weiss, 2013:224).
- **Better information management.** As clarified by Hugo and Badenhorst-Weiss (2013:224), better information management relates to the design of the system to store and manage important supplier information, including whether suppliers are minority or locally owned, thus allowing buyers to support such businesses. Summary statistics and supplier performance reports can be generated for management to review and utilise for future planning.

- **Benefits to the supplier.** Benefits to the supplier include lower barriers to entry and transaction costs, access to more buyers and the ability to adjust instantly to market conditions, thus making e-procurement attractive to most suppliers.

In light of the above there is no doubt that municipalities could only benefit from e-Procurement. It was highlighted that the OCPO of National Treasury initiated the e-Tender portal as a first step towards implementing government e-Procurement system. It was further discussed that National Treasury, e-Tender portal publicises tender notices, tender documents, terms of reference and tender specifications and decisions made on award amongst other things. The critical success factors of e-procurement are discussed below

2.8.1 E-Procurement critical success factors

According to Thai (2009:435), many governments, including municipalities, lead the way by introducing e-Procurement and other innovations as a means of trying to reduce the transaction costs involved in ordering from many suppliers, such as in the Gauteng Province of South Africa, order transaction cost reduction initiatives include the use of SAP software and the use of purchasing cards.

Laryea, Ibem, Pagiwa and Phoi (2014:9) state that the Government of Gauteng established Gauteng Shared Services Centre (GSSC) and System Administrative Processes (SAP) as current electronic systems used to support procurement in Gauteng Province. GSSC is an online procurement-to-pay system used to support procurement in the province whilst SAP is used for requisition and data management, payment of contractors and suppliers. e-Procurement in municipalities of the Free State can be adopted to assist with timely payment of suppliers. Vaidya *et al.* (2006:73-87) state that in order to ensure the successful implementation of e-Procurement in municipalities, the following issues must be in place.

- **Security and Authentication.** Vaidya *et al.* (2006:84) cite that the security and authentication of e-Procurement systems users are vital due to the sensitivity of the government, particularly municipality data and the legal nature of orders and payments for suppliers. The system must have mechanisms for identifying and authenticating a user who places an order to ensure that the supplier knows that it is safe to complete the order. Vaidya *et al.* (2006:84) further explain that in an e-Procurement environment, systems and processes need protection because they involve financial transaction and it might be vulnerable to fraud Vaidya *et al.* (2006:84). Vaidya *et al.* (2006:84) further

state that there is also a need for transactions between different systems to be exchanged in secure manner with absolute assurances concerning the identities of the buyers and suppliers. In order to encourage buyers and suppliers to engage in e-Procurement, it is critical that both parties have complete confidence and trust in the security infrastructure of the system. This security is of the utmost importance for both the organisation and the suppliers to protect their identity and information.

- **Re-engineering the process.** In order to accommodate e-Procurement, re-engineering of the process should be viewed in a positive light and also as an enabling mechanism not only to make the process of e-Procurement more efficient in terms of cost, time, and achievement of value for money where existing procurement practices and procedures may contradict the goals and objectives of the new initiative. Therefore, the implementation of e-Procurement will require the re-engineering of existing procurement processes. The roles and responsibilities might change substantially with the new process, which requires staff to adapt to these changes (Vaidya *et al.*, 2006:85).
- **Performance measurement.** Performance measurement can be seen as key to ensuring the continuous assessment of the key benefits is regarded as vital to the successful delivery of the business case. Performance measurement drives behaviour and can be seen as key to making the change a success. Thai (2009:435) observes that establishing goals and baselines is very important. A general lack of performance measurement capability means that management has only limited tools for assessing organisational progress. Vaidya *et al.* (2006:85) further state that as part of performance measurement, it is important to define key performance indicators (KPIs) early in the process to enable successful benefits tracking and distil the business case into measurable KPIs. These KPIs should then be monitored throughout the project. Thus, the formulation of KPIs is critical and important to ensure proper measurement of performance of e-Procurement (Thai, 2009:435).
- **Top management support.** The support of Top management is critical to the success of an e-Procurement implementation. The Top management team such as the steering committee should involve the project manager, any consultants working with the committee and agency staff to develop an implementation strategy. Vaidya *et al.* (2006:86) state that in this regard, considerable attention and support need to be provided by senior management to ensure that the procurement reform has been well

understood in the agency. Furthermore, Vaidya *et al.* (2006:86) state that the executive management team is responsible for setting the vision and goals, bringing about collective commitment for change in process and organisational structures, and formulating the policies and strategies necessary to put an e-Procurement initiative in place (Thai 2009:435). Thus, the support of top management is critical to ensure the effective management and implementation of e-Procurement within government departments and municipality (Vaidya *et al.*, 2006:86; Thai 2009:435).

- **Change management programme.** A change management programme may be the least expensive aspect of an e-Procurement project, but a lack of it can be a leading cause of project failure. Vaidya *et al.* (2006:86) observe that to achieve successful change management for e-Procurement, more attention should be given to aspects such as consultation, communication and issue resolution.
- **E-Procurement implementation strategy.** An e-Procurement implementation strategy needs to be created, documented and ensured that it is executable prior to the deployment of the e-Procurement solution. Vaidya *et al.* (2006:87) state that the e-Procurement strategy is intended to provide savings enabled by the technology. Hence, e-Procurement should be procurement-driven as well as technology-driven. Therefore, a clearly defined e-Procurement strategy not only emphasises the importance of e-Procurement in the public sector of which municipalities cannot be excluded, but also takes into consideration major institutional changes from the procurement process perspective as well as from the organisational perspective (Thai, 2009:435).

Except for the above success factors, Vaidya *et al.* (2006:73) are of the opinion that municipalities are encouraged to implement the following to ensure the successful implementation of e-Procurement:

- **End-user training.** End-user training concerning the application of new e-Procurement technology and the procurement processes is vital to ensure the success of its implementation. Badenhorst-Weiss (2013:298) observes that most local governments are less willing to move towards aggressively complete e-Procurement implementation, because their suppliers see little advantage in moving online due to the lack of interest and enthusiasm of particularly SMME businesses. Badenhorst-Weiss (2013:298) further observes that the orientation of the municipality suppliers as part of procurement

management practices, in particular about the new technologies, can be seen as critical to assist with saving that is desperately needed to pay suppliers. Thus, training and in particular orientation of suppliers about e-Procurement technology is critical to the process of payment of suppliers.

- **Supplier adoption.** Supplier adoption and their early involvement through demonstrating the proposed solution, particularly e-Procurement system in municipalities and discussing necessary changes, issues and concerns such as various options in developing and maintaining supplier catalogues is vital. Hugo and Badenhorst-Weiss (2013:298) observed that getting suppliers particularly SMME interested enough and involving them to convert their paper catalogues to electronic ones was considerably more difficult than imagined hence the view that an e-procurement system devoid of suppliers is like a grocery store without groceries. Hugo and Badenhorst-Weiss (2013:298) state that in this case, senior management's full commitment is important to ensure early involvement of suppliers that forms part of supplier management, which is incorporated in procurement management practices to enhance efficiency in municipalities.
- **System integration.** According to Vaidya *et al.* (2006:84), it is critical to ensure that e-Procurement system of the municipality links to the municipal financial management system to ensure that the electronic ordering transaction support system will be reflected in the municipality's financial management system. It should also be ensured it is communicated to suppliers fast tracking the process of online payment to suppliers, failing which, the growing list of unpaid suppliers and creditors will have an effect on achieving service delivery priorities. Thus, the e-Procurement system must be integrated with a municipalities' financial management system. Not only will it allow the municipality to fast-track the online payment to suppliers; it also will speed up the process of identifying the unpaid suppliers (Vaidya *et al.*, 2006:73; Hugo and Badenhorst-Weiss, 2013:298).

2.8.2 Implementing of e-Procurement

Hugo and Badenhorst-Weiss (2013:224-225) are of the view that the implementation of e-Procurement in developing countries, including South Africa, is lagging far behind, due to the

following reasons that are outlined in the discussion below. Hugo and Badenhorst-Weiss (2013:224-225) identify the following barrier to e-Procurement.

2.8.2.1 Barriers related to managing purchasing and supply

Hugo and Badenhorst-Weiss (2013:224-225) state the following barriers concerning the management of purchasing and supply:

- An attitude of wait and see when organisations have to select suppliers and e-marketplaces.
- Another barrier is security concerns.
- The lack of a strategic perspective related to trust, commitment and long-term relations between supplier and buyers can be seen as another barrier.
- The attachment to out-dated views by not sharing information with selected trading partners such as suppliers can be seen as another barrier relating to the management of purchasing and supply.

2.9.2.2 Barriers to technology

According to Hugo and Badenhorst-Weiss (2013:224-225), the barriers to technology include the following:

- The cost and the implementation of the technology required for e-Procurement.
- Technical obstacles related to information and data interchange
- The lack of qualified employees to implement the system or alternatively the cost of training staff to operate an e-Procurement system.
- Another barrier is the supplier resistance to participate in e-Procurement and a resistance to adopt new technology.
- The lack of standardised interchange format for e-Procurement is another barrier to implementing this technology effectively.

The above barriers to e-Procurement should be addressed to ensure that government departments and in particular municipalities implement e-Procurement technology effectively.

A comparative analysis of international models/frameworks and guidelines for procurement and SCM in municipalities are outlined in the discussion below.

2.9 COMPARATIVE ANALYSIS OF INTERNATIONAL MODELS/Frameworks AND GUIDELINES FOR PROCUREMENT AND SCM IN MUNICIPALITIES

According to the United Nations Commission on Growth and Development (2008), countries and regions must develop different procurement and SCM models and guidelines for municipalities because of their various political systems, diverse socio-cultural forces and various economic developments. Wang and Li (2014:901) assert that this is particularly true in developing and transition countries. At the same time, the ability and willingness of suppliers and contractors to sell to foreign governments are hampered by the inadequate or divergent state of national procurement legislation in many countries.

Wang and Li (2014:901) state that during the second half of the 20th century, public procurement was transformed through the pressures of globalisation and the proliferation of regional economic integration schemes, the European Union, North American Free Trade Agreement (NAFTA), Mercado Comum del Sur/Southern Common Market (MERCOSUR) and Common Market for Eastern and Southern Africa (COMESA). The global trade liberalisation agreements negotiated under the World Trade Organisation (WTO) also incorporate a pluri-lateral Government Procurement Agreement (GPA), which calls for the convergence of national procurement legislation to reflect internationally agreed norms like "unrestricted access" to procurement opportunities and "non-discrimination and due process" in the execution of public procurement operations. Within this context, the United Nations Commission on International Trade Law (UNCITRAL) introduced a model of public procurement law in order to guide countries in the process of reforming the legal framework of their public procurement systems.

Given the significant influence public procurement has on the economy of countries it is important to explore different guidelines and models/frameworks for procurement and SCM as outlined in the discussions below.

2.9.1 United Nation Commission for the International Trade Law's Model of Procurement of Goods, Construction and Services (UNCITRAL)

According to Turley and Perera (2014:29), the United Nations Commission for the International Trade Law's Model of Procurement of Goods, Construction and Services (UNCITRAL) is the highest legal body from the United Nations mandated in the field of international trade law, to harmonise and unify the law of international trade through the issuing of model laws, amongst others (UNCITRAL, 2011:1). A total of 30 states embarked on the process to enact legislation based on the UNCITRAL's model. A template was developed based on the UNCITRAL's model available to national governments seeking to introduce or reform procurement legislation for their domestic economies. It is intended to provide all essential procedures and principles for conducting various types of procurement proceedings in a national system with a view to the achievement of the value for money for taxpayer, and avoiding corruption (UNCITRAL, 2011:1).

According to the United Nations Commission for the International Trade Law's Model Procurement of Goods, Construction and Services (UNCITRAL, 2011:1-2) the following are the objectives of public procurement:

- Maximising economy and efficiency in procurement;
- Fostering and encouraging participation in procurement proceedings by suppliers and contractors, especially where appropriate, and participation by suppliers and contractors regardless of nationality, thereby promoting international trade;
- Promoting competition among suppliers and contractors for the supply of goods, construction or services to be procured;
- Providing fair and equitable treatment of all suppliers and contractors;
- Promoting the integrity of fairness and public confidence in the procurement process; and
- Achieving transparency in the procedure relating to procurement.

According to Bolton (2016:2) the UNCITRAL model on public procurement also makes provision for new procurement procedures that are aimed at facilitating dialogue between procuring entities and suppliers with the aim to procuring quality and innovative goods and

services. Furthermore, the UNCITRAL model was undertaken in response to the fact that in a number of countries the existing legislation governing procurement was perceived to be inadequate or outdated. This resulted in inefficiency and ineffectiveness in the procurement process, abuse and failure of the public purchaser to obtain adequate value in return for the expenditure of public funds. The UNCITRAL model assisted countries to remedy disadvantages that stem from the fact that inadequate procurement legislation at the national level creates obstacles to international trade, a significant amount of which is linked to procurement. Disparities among and uncertainty about national legal regimes governing procurement may contribute to limiting the extent to which governments can access the competitive price and quality benefits available through procurement on an international basis (UNCITRAL (2011:45). South Africa procurement and SCM system should benefit from taking into consideration the above objectives of the UNCITRAL's model to promote effective procurement and SCM practices.

2.9.2 Public procurement in Brazil

According to the World Bank (2010:29), Brazil's public procurement legal and regulatory framework is guided by Article 37, paragraph XXI embedded in the country's Constitution, which provides that the procurement of goods, works, and services shall be conducted through open, competitive bidding, except in exceptional and unambiguously defined cases, and in a way that ensures equal treatment of bidders, economy and efficiency. This Constitutional requirement in Brazil further provides that procurement is decentralised at three levels, Federal, State and Municipal levels of government. To give effect to the Constitutional requirement concerning public procurement, the Procurement Law was passed in Brazil in 1993 and the Reverse Auction Law in 2002 (World Bank, 2010:29).

Motta (2010:5) surveyed Brazilian procurement processes and agrees with the World Bank (2010:30) findings that the Procurement Law No. 8666 of 1993 is the first piece of legislation which regulated government procurement for all goods, works and services and indicates how and under what circumstances various procurement methods shall be implemented. This Procurement Law (1993) provides important requirements for drafting and executing contracts; regulates the administrative complaint resolution mechanism; and defines procurement-related administrative and criminal sanctions.

According to the World Bank (2010:29-32), the Procurement Law (1993) provides for procurement methods such as open bidding, direct contracting, low-value quotation, and e-quotation, amongst others. For all these methods, bidders need to demonstrate their financial and technical capacity in order to qualify as bidders. For bidding purposes, bidders need to submit documents in two sealed envelopes to the implementing agency at the same time, whereby the first envelope contains a price proposal and the second contains the bidder's legal, financial and technical qualification documents. The World Bank (2010:30) further maintains that the evaluation process includes two separate steps. In the first, the bid evaluation committee reviews only the envelopes that contain the qualification documents. World Bank (2010:30) further avers that only those bidders considered complying with the bidding documents in full move to the second step, when the envelopes with the price proposals are opened. The contract is awarded to the qualified bidder who submits the lowest price. Price envelopes for unqualified bidders, as determined by the bid evaluation committee, are returned unopened after the award decision is made.

In comparison with the bidding process in Brazil, municipal procurement and SCM in South Africa require all bids received on time to be evaluated, irrespective of the total number of bids received. Evaluating all received bids, irrespective of bidders' financial and technical capacity could be time consuming and lead to the lapse of validity periods between evaluating and awarding bids. This could contribute to non- or late payment. Once the validity period has lapsed, the prices offered by bidders could escalate. Awarding contracts at higher prices than what was budgeted for depletes the budget and could lead to late or non-payment of suppliers. Such a bid must be evaluated and awarded as soon as possible, but no later than the initial expiry of the validity period of the bid. The extension of the validity period of such a bid must not be allowed.

Motta (2010:6) illustrates Brazilian procurement open bidding methods as depicted in Table 2.3 below.

Table 2.3 Brazil Procurement methods and their values

Commodity Type	Convite (Invitation)	Tomada de Preços (Price taking)	Concorrência (Competition)
➤ works/engineering • services	up to R\$150,000	up to R\$1.5 million	over R\$1.5 million
➤ Goods	up to R\$80,000	up to R\$650,000	

(Source: Motta, 2010)

As show in Table 2.3 above, the choice of bid method such as Convite, Tomada de Preços, Concorrência is based on the estimated value of goods, services and works to be procured.

The World Bank (2010:31) provides that suppliers are invited to participate through Convite events which do not need bidders to register in the Government Supplier Database, whereas the Tomada de Preços bidding process is open to any interested bidders, provided they have registered on-line in the Federal government supplier database. Bidders may register on the supplier database up to three days before a Tomada de Preços bid submission deadline. Once registered, bidders remain in the database for easy access to future events. For Concorrência, the bidding process is open to any interested bidders, regardless of registration status at the bid submission deadline. The bid validity period for Convite can last between 30 and 45 days, whereas Tomada de Preços is between 60 and 90 days and Concorrência is between 90 and 150 days.

In comparison with the Brazilian procurement methods, all national, provincial and municipal suppliers intending to do business with the South African government must self-register on the Supplier Central Database (CSD). According to CSD Supplier Registration Support (RSA, 2016:81) the intention of CSD is amongst others to reduce the administrative burden, which assists with targeting SMMEs for empowerment and growth, and which has not happened since the inception of CSD on 1 September 2015. For the purpose of this study, South Africa could learn from Brazil by inviting (Convite) SMMEs to bid for small-value contracts for empowerment in terms of pricing and invoicing methods before they are allowed to register on the CSD and compete on the same platform with established companies. One could further argue that poor pricing and invoicing could lead to late and non-payment of suppliers.

The World Bank (2010:29) maintains that the Brazilian Procurement Law (1993) provides for a second procurement method, which is direct contracting and may be appropriate in the

following instances; emergency response situations (e.g. natural disasters); sourcing from state-owned enterprises; contracting utility services (water, electricity); leasing real estate; procuring maintenance and repair parts for machinery/equipment from the original supplier and during the equipment period under warranty; procuring highly specialised items where no competitive market exists; procuring small-value items; during war periods; when a previous bidding process received no bids, provided the administration justifiably cannot re-bid; when the Federal government needs to get involved to regulate prices or restore normalcy to supply; when all bids received for a specific procurement are higher than current market prices; when it involves national security; when it is necessary to complete works that are unfinished due to contract termination; purchasing perishable food; when hiring not-for-profit research and development agencies; purchasing goods/services from an international agreement approved by Congress, provided that prices/conditions clearly benefit the government; purchasing or restoring art or historical objects; buying goods/services during military operations outside a home station; buying military equipment that requires standardisation; for the purchasing of science or technology equipment; hiring low-income associations or communities to collect recyclable trash; and buying high-technology equipment that will be used for national defence.

In comparison with the above second procurement method, direct contracting in South Africa is implemented during emergency and urgent cases. This method of procurement could be one of the contributing factors to late and non-payment of suppliers, as utilisation of funds that are not budgeted for depletes the budget. Fourie (2018:730) states that in terms of Section 38(a)(iii) of the *PFMA* (RSA, 1999) the kind of procurement defeats the good intention of Section 217 of the *Constitution* (RSA, 1996) which states that goods and services must be contracted in a system that is competitive, transparent, cost-effective, fair and equitable.

According to the World Bank (2010:32), Brazilian Procurement Law (1993), the Low-Value Quotations is the third procurement method that introduced an electronic quotation mechanism as the preferred method for low-value procurement (estimated up to R\$15,000 (about \$8,300) for works/consulting services, and R\$8,000 (about \$4,430) for off-the-shelf goods and non-consulting services.

Motta (2010:5) further points out that e-quotation is the fourth procurement method, an internet-based competitive procurement procedure where awards are made to the lowest price bid. It is similar to a reverse auction in that e-quotation bidders compete for the underlying

award by offering decreasing prices with knowledge of the lowest-priced offer at all times, while keeping bidder identities confidential. No auctioneer is present.

The second public procurement Brazilian Law is Reverse Auction Law, 2002 administered by an auctioneer. Motta (2010:5) describes Reverse Auction Law, 2002 as a new procurement method reserved for off-the-shelf goods and non-consulting services commonly known to Brazilians as Pregão, where bidders compete to provide goods and services to one or more contracting agencies by offering decreasing prices through bidding online. The World Bank (2010:30) further provides that in the Reverse Auction, there are no invitation; events are open to interested bidders and, regardless of estimated award size, differences arise in terms of both registration requirements as well as advertising means, depending on whether the auction takes place on- or offline.

The World Bank (2010:31) explains that for offline reverse auctions, participating bidders need not be registered on the Federal government-supplier database and auctions must be advertised in the Federal official gazette, but only optionally in the Federal government-procurement web portal and a newspaper of wide circulation. The World Bank (2010:33) further states that the bidders' technical, financial, and legal qualifications are always the requirements to participate in the bidding process. For online reverse auctions, all participating bidders must be registered in the Federal Government Supplier Database. Such registration is a necessary input to obtain credentials to access the procurement web portal (where auctions are hosted). Presidential Decree 5.450/05 stipulates that all auctions with an estimated award size up to R\$650,000 (about \$360,000) must be advertised in the Federal official gazette and the procurement web portal. For those over R\$650,000 and below (or equal to) R\$1.3 million (about \$720,000), the advertisement must also appear in a local newspaper, while for estimated awards above R\$1.3 million, it must also appear in a regional or national newspaper.

The Brazilian Reverse Auction Law (2002) has important advantages compared to the open competitive bidding process, because most bidding processes are internet-based. As a result, they generate more competition and have substantially lower transaction costs, including a lower cost of doing business with the government for the bidders. For example, in 2009, 97% of Federal government reverse auction events were conducted online (World Bank, 2010:34). One key difference between the two procurement methods, which is inherent in the use of the internet, is the ability to review and send documents (e.g. price proposals, qualification documents, etc.) online (or sometimes via fax) rather than on paper, which makes electronic

reverse auctions faster and more flexible to implement and cheaper (World Bank, 2010:34). The Reverse Auction Law (2002) further requires a minimum of eight business days between advertisement and electronic auction, regardless of the size of the contract. The World Bank (2010:34) further maintains that bid preparation time for Federal government reverse auctions averages 13.5 business days. It is estimated that most such auctions, from the time they are advertised to contract awards, are implemented within 23 business days or less.

According to the World Bank (2010:34), a 2008 Presidential Decree (5.504/05) requires the use of electronic reverse auctions for procuring all off-the-shelf goods and non-consulting services. They were used 34 350 times in 2009 for contracts worth R\$20.5 billion and generated savings of 21% over estimates calculated from market-representative reference prices. A key reason is the level of competition it promotes. In South Africa, no Reverse Auction Law is implemented; therefore, one could argue that the lesson learned from Reverse Auction Brazilian Law could be implemented by the South African government to generate much-needed savings to have adequate cash flow to pay suppliers promptly.

2.9.3 Public procurement in Russia

According to Mazibuko (2018:71), the regulatory frameworks of countries are important to guide public procurement practices. Larjavaara (2004:10) states that public procurement in Russia is constructed with international principles that are in support of the United Nations UNCITRAL model on public procurement. Larjavaara (2004:15) further states that the Constitution of Russia does not address public procurement, this has led the procurement practices to be different between the various levels of government.

Revzina, Shamirzayeza and Vasilyeva (2019:1) concurs with Pakharukova (2014:2) by stating that key regulation related to contract system of procurement of goods, works and services for state and municipal needs is called Federal Law No. 44-FZ. The Federal Law No. 44-FZ replaced and reformed the previous regulation of government procurement concerning the placement of orders for delivery of goods, performance of works and rendering services for state and municipalities. The Federal Law No. 275-FZ makes provision for State Defence Procurement. Apart from these and there are also basic laws regulating certain utilities such as water and heat supply systems in Russia.

Revzina, Shamirzayeza and Vasilyeva (2019:2) and Larjavaara (2004:11) maintain that the fundamental principles of the Federal Law No. 44-FZ include the selection of suppliers on a

basis of important criteria other than price and among other new provisions. The Federal Law No. 44-FZ introduced, a system of planned procurement based on annual and three-year procurement plans. The Federal Law No. 44-FZ also makes provision for additional methods of selecting a supplier, including rules relating to requests for proposals, tenders with limited participation and two-stage tenders; monitoring, auditing and public oversight of procurement; and anti-dumping measures intended to ensure that procurement respondents comply with their price undertakings.

In the context of municipalities, the Federal Law No. 44-FZ regulates relations, with a view to meet state and municipal needs with the aim to enhance the productivity and efficiency of the procurement of goods, works and services, promoting transparency and preventing corruption and other abuses in this area. Thus, the contract system under Federal Law No. 44-FZ is based on uniform principles, namely transparent; competitive; professionalism of contracting authorities; promoting innovation; responsibility for productivity in meeting state and municipal needs; and efficiency of procurement.

In comparison with the procurement practices in Russia, municipalities in particular the Free State Province who experiencing challenges with late or no payment of suppliers, could benefit from implementing a transparent system of planned procurement based on annual and three-year procurement plans as applied in Russia. The envisaged products, services and works to be procured could be listed as well as the estimated values and municipalities may only procure listed items from listed suppliers at the stated price, quantities and quality to avoid inefficiency towards SCM practices. The next section provides a discussion about procurement Frameworks and guidelines in India.

2.9.4 Public procurement in India

According to Hazarika and Jena (2017:5), and Mantzaris (2017:121), India does not have a single, uniform and comprehensive national public procurement law guiding the procurement activities. The public procurement framework system in India consist of four broad features that consist of specific constitutional provisions, legislative provisions, administrative guidelines and overseers. The constitutional provisions, Articles 298, 299, 300 and 300A authorize the governments to contract for goods and services. Similarly, Article 246 specifies the legislative powers in the federal structure of India into three lists namely, Union List, State List, and Concurrent List. While Article 355 specifies the executive power, Article 282 directs

the financial autonomy in public spending. Beyond that, it does not provide any guidance on public procurement principles, policies, and procedures.

Hazarika and Jena (2017:5-7) further mention that in the absence of a national public procurement law, the General Financial Rules (GFRs) allow the government entities to conduct procurement activities independently. The procurement system in India aims at promoted micro small enterprises through price and purchase preferences and reservation of sector-specific products and services. As such many government entities such as Ministry of Defence, Indian Railway, Telecom, Public Works Department, and Directorate General of Supplies and Disposal (DGS&D) issue their own procurement manuals to administer public procurement activities. A few states in India has their own public procurement Acts. This contribute further to complexities due to multiple interpretations of rules and regulations at the discretion of the procuring entities. Apart from the General Financial Rules, the Ministry of Finances makes provision for separate procurement manuals, policies and procedures concerning purchasing of goods and services and work contracts. While, the Delegation of Financial Power Rules (DFPR) makes provision for expenditure autonomy of the different levels of authorities for a decentralized procurement system.

According to the Manual for Procurement of Goods, (2017:1), compiled by Ministry of Finance provides procurement guidelines to various Ministries, Departments, local and urban bodies, public sector enterprises and other government bodies. The application of the Manual for Procurement of Goods, (2017:1) requires the objective of procurement be to achieve the right balance between costs and requirements by following five parameters called the five R's of procurement. Firstly, the right of quality refers to the ensure that the government buy just the right quality that will suit the needs, not more and not less. Secondly, the right of quantity aiming at avoiding extra costs and overheads involved with both procuring a requirement too frequently in small quantities or with buying large quantities for prolonged use. Thirdly, the right price aims at not buying the cheapest product by taking into account the initial price paid for the requirement but also makes provision for other costs such as maintenance costs, operational costs and disposal costs. Fourthly, the right time and place aims at procuring not too late or too early as well as not from the wrong location. As extra time and money would be involved in logistics, time schedule for completion of works. Lastly, the right source with the right financial capacity and technical capability is critical important to avoid delays, claims and disputes.

The public procurement framework in India makes provision for five overseers responsible to keep an eye on procurement probity issues in India such as Procurement Policy Division, Comptroller and Auditor General, and Central Vigilance Commission. The Central Vigilance Commission is tasked with increasing transparency in public procurements, and procuring entities are required to adhere to the Central Vigilance Commission guidelines in relation to all public procurements. The Competition Commission of India is tasked with checking anti-competitive elements and Central Bureau of Investigation tasked with investigation and prosecution of the criminal activities in the procurement processes such as justice issues (Hazarika and Jena 2017:8).

Hazarika and Jena (2017:9) further explain that the Procurement Policy Division (PPD) under the Department of Expenditure is responsible for reforms of the procurement process in India. The specific role of the Procurement Policy Division includes the following:

- To ensure harmony in the public procurement processes including e-procurement;
- To issue public procurement legislation and rules, notifications, and orders;
- To prepare and issue manuals for different types of public procurements; and
- To provide guidance to the procuring entities and enhancing the capacity building of the procurement officials.

The General Financial Rules of 2017 makes provision for the promotion of electronic portals and e-procurement in India as a tool for enhancing transparency, efficiency, and accountability in the public procurement process. The General Financial Rules of 2017 has mandated the use of Central Public Procurement Portal (CPPP) and Government e-Marketing (GeM) by the procuring entities. The Central Public Procurement Portal provides an e-platform to the procuring entities to publish and accept the tender and tender related documents, free access to bid documents, bid submission, communications for clarifications and access to bid opening. Apart from the above, state governments make use of State e-Procurement portals with assistance of the National Informatics Centre (NIC), while the Indian Railways makes use of a IREPS portal for conducting e-procurement. (Hazarika and Jena 2017:13-14).

Central Public Procurement Portal (CPPP) has been designed, developed to ensure transparency in the public procurement process. The primary objective of the Central Public Procurement portal is to provide a single point access to the information on procurements made

across various Ministries and the Departments. The Central Public Procurement Portal has e-publishing and e-Procurement modules. It is mandatory for all Procuring Entities to publish on the Central Public Procurement Portal all their tender enquiries and information about the resulting contracts. The Central Public Procurement Portal provides access to information such as documents relating to pre-qualification, Bidders' registration, Bidding documents; details of bidders, their pre-qualification, registration, exclusions/debarments; decisions taken regarding prequalification and selection of successful bid. It is also now mandatory to implement end-to-end e-Procurement for all procurements either through Central Public Procurement Portal or any other suitable portal (Hazarika and Jena 2017:14-18).

The Directorate General of Suppliers and Disposals (DGS&D) developed the Government e-Marketing (GeM) portal which is an end-to-end e-portal for common use goods and services. The Directorate General of Suppliers and Disposals publishes the item-wise list of goods and services periodically to be procured through the Government e-Marketing portal. The prospective suppliers register themselves on the portal. Directorate General of Suppliers and Disposals asks the procuring entities to project their annual procurement plans and submit them for displaying on the Government e-Marketing portal. An entity selects a supplier directly with the lowest price available on the portal for procurement value up to INR 30 lakhs, whereas, it issues bids or reverse auction for procurement value of more than INR 30 lakhs. Upon receipt of goods and services by the entity, payment is made electronically (Hazarika and Jena (2017:14-17)).

In comparison with India who does not have a national public procurement law guiding procurement activities, the *Preferential Procurement Policy Framework Act (PPPFA)*, (RSA, 2000) in the South African context provides an integrated approach towards procurement of goods and services. Similar to the five R's of procurement prescribed by the Manual for Procurement of Goods, (2017:1) in India the PPPFA (RSA, 2000) gives effect to Section 217(1) of the *Constitution* (RSA, 1996), which requires that when an organ of state in the three spheres of government, contracts for goods and services, it must ensure a system which is fair, equitable, transparent, competitive and cost-effective. However, one could argue that South African could learn from India concern the objective to procure goods and services from the right source with the right financial capacity and technical capability to avoid service delivery delays, which could lead to claims and disputes that could further contribute to no or late payment to suppliers. Apart from the PPPFA, (RSA, 2000) the National Treasury issued

specific SCM regulations and guidelines to guide the practices of procurement and SCM in the three spheres of government.

In comparison with the Indian e-procurement system with well establish e-portals, the eTender system in South Africa is only used for the publication of bids and awarded of tenders. The eTender system in South Africa does not enhance transparency and reduce corruption in terms of evaluation and adjudication of bids. For the purpose of this study South Africa could learn from India by implementing mandatory end-to-end (from initial stage to award stage) e-Procurement for all procurements either through eTender system or CSD to enhance transparency and reduce corruption, which will reduce litigations and save money for prompt payment of suppliers.

The next section provides a discussion about the Models/Frameworks and guidelines for procurement and SCM in China.

2.9.5 Public procurement framework in China

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, 2001) reports that the system of local government in China is divided into four levels, of which municipalities are the highest levels of local government. UNESCAP (2001) further argues that there are municipalities that falls directly under the Central Government, namely Beijing, Tianjin, Shanghai and Chongqing, which could implement local laws, regulations and decisions of the people's congresses (UNESCAP, 2001).

The European Union Chamber of Commerce (2012:2) embarked upon a study of foreign suppliers competing for bids in China's public procurement and concluded that it was difficult for foreign enterprises to compete for bidding, since regulatory framework governing public procurement in China is fragmented, inconsistent and unevenly implemented. This was led by the government of China's view of procurement as an economic reform, which further led different ministries both at local and central level, to be in charge of their budget, to issue own bidding regulations, set up bidding agencies, and award tenders based on their own policies. There is therefore no uniform Reverse Auction Law and guidelines for procurement and SCM in Chinese municipalities, which affects suppliers negatively.

Jones (2010:3) is of the opinion that currently, China's public procurement is governed by two sets of laws, each with their respective sets of rules. First, the Tendering and Bidding Law

(TBL) enacted in 1999 by the National Development and Reform Commissions (NDRC) regulates all State-Owned Enterprises (SOE) tenders, in particular large-scale infrastructure projects such as construction, aviation, shipping, engineering, architecture, transportation, power and water, as well as large-scale, privately invested projects for public interest, mainly joint ventures. Secondly, the Department of Ministry of Finance (MOF) took charge of enacting and implementing a *Government Procurement Law (GPL)* in 2002 to cover central and sub-central government purchases such as public healthcare, government buildings, railway projects, information technology (IT) for government departments, government office equipment, government car fleet, non-urgent relief work and geological surveys. Respective findings of the study conducted by Cao, Yan and Zhou (2010:332-333) and Na (2012:60) highlight particular challenges because of overlapping and conflicting procurement procedures. Wang and Li (2014:902) confirm the findings of the above studies and provide further that though Tendering and Bidding Law employs open bidding and selective bidding as its only procurement methods, there are instances where negotiations are employed, particularly when complex procurement is involved. This is a clear indication that the uniform model with clear guidelines, which include selecting the right supplier to ensure fair, economic and efficient procurement management practices processes, is indispensable. This model will influence the sustainability of suppliers and ensure proper implementation and monitoring of contracts concluded through either Tendering and Bidding Law or *GPL*.

According to Jones (2014:3), the *Government Procurement Law, 2002* regulates funds that flow from the Central Planning budget to MOF. From there, funds are allocated through China's Central Procurement Catalogue to the Public Procurement Centres (PPC) in order to administer the tendering process with the intention for prudent financial management. However, the findings of Jones (2014:3) provide differing views, where it stipulates that local government procurement processes have been criticised. Since local regulations allow the process to favour local enterprises, pushing out non-local suppliers and procurement administered under the *GPL* is largely impenetrable to foreign suppliers, due to the Central Procurement Catalogue. Jones (2014:3) further avers that the central procurement catalogue is created behind closed doors, and specifies which products can be used to supply public procurement contracts, while various regional and industry catalogues also exist. For the Chinese government to ensure that public procurement processes are fair, transparent, economical and efficient there is a need to implement a uniform model and guidelines for public procurement practices to ensure proper management of suppliers.

Jones (2014:3) argues that the Chinese Tendering Bidding Law, 1999 falls under the jurisdiction of the NDRC and its local DRC offices are responsible for public works projects. While the Government Procurement Law regulates all central and sub-central government purchases, the Tendering and Bidding Law covers SOE tenders. Any centrally government financed firms are eligible to bid for Tendering and Bidding Law tenders. This includes SOEs, foreign suppliers and joint venture. While foreign enterprises are eligible to bid for Bidding Law tenders, their bids face a calculated amount of both overt and subtle blockages. This is a clear indication that, had there been a uniform model and guidelines to manage procurement processes, both national and international suppliers doing business with the Chinese government would have been managed better.

According to Cao *et al.* (2010:349), public procurement practices are devolved to the ministries at regional and local government and are accountable for expenditure. The European Union Chamber of Commerce (2012:2) further provides that ministries such as the NDRC, MOF and Ministry of Commerce (MOFCOM) provide policy and implementation direction, but the Ministry of Science and Technology (MOST), Ministry of Housing and Urban Development (MOHURD) and the Ministry of Environmental Protection (MEP) also have some degree of policy control. Wang and Li (2014:912) maintain that in each major industry related to public procurement, a ministry and its local branches is asked to play a supervising role. Tendering and Bidding Law outlines that an administrative department should keep a close eye on bidding activities in the industry it manages. As assigned by the State Council, each monitoring and supervising institution should be responsible for approving projects requests, managing procurement agencies, addressing bid protests, and dealing with illegal behaviour at any stage of public procurement.

Table 2.4 below summarises China's public procurement framework, which indicates that public procurement is divided into six categories of procurement:

- (i) government procurement (office and general equipment),
- (ii) engineering construction (government investment and infrastructure),
- (iii) road construction (highway and air route and related facility),
- (iv) building construction (public housing),
- (v) medicine and medical device (public hospital), and

(vi) land-use rights and mining transfer (property transaction).

Table 2.4: A Framework of China's public procurement

Categories of Procurement	Applicable law and Derivative regulation	Regulatory Authority	Purchasing Administration Agency	Comprehensive Oversight Authority
<ul style="list-style-type: none"> ▪ Government Procurement (Office & General Equipment) 	<ul style="list-style-type: none"> ▪ The Government Procurement Law ▪ Derivative regulations issued by the Ministry of Finance. 	<ul style="list-style-type: none"> ▪ Ministry of Finance (MOF) 	<ul style="list-style-type: none"> ▪ Procurement Centres 	<ul style="list-style-type: none"> ▪ Audit Office ▪ Ministry of Supervision
<ul style="list-style-type: none"> ▪ Engineering Construction (Government Investment and Infrastructure) 	<ul style="list-style-type: none"> ▪ The Tendering and Bidding Law ▪ Derivative Regulation issued by the National Development and Reform Commission 	<ul style="list-style-type: none"> ▪ National Development and Reform Commission (NDRC) 	<ul style="list-style-type: none"> ▪ State owned tendering agents 	<ul style="list-style-type: none"> ▪ Audit Office ▪ Ministry of Supervision
<ul style="list-style-type: none"> ▪ Road Construction (Highway and Air Route and Related Facility) 	<ul style="list-style-type: none"> ▪ The Tendering and Bidding Law ▪ Derivative regulations Issued by the NDRC and the Ministry of Transport 	<ul style="list-style-type: none"> ▪ Ministry of Transport (MOT) 	<ul style="list-style-type: none"> ▪ State owned tendering agents 	<ul style="list-style-type: none"> ▪ Audit Office ▪ Ministry of Supervision
<ul style="list-style-type: none"> ▪ Building Construction (Public Housing) 	<ul style="list-style-type: none"> ▪ The Tendering and Bidding Law ▪ Derivative regulations Issued by the NDRC and the Ministry of Housing and Urban-Rural Development 	<ul style="list-style-type: none"> ▪ Ministry of Housing and Urban-Rural Development 	<ul style="list-style-type: none"> ▪ State owned tendering agents 	<ul style="list-style-type: none"> ▪ Audit Office ▪ Ministry of Supervision
<ul style="list-style-type: none"> ▪ Medicine and Medical 	<ul style="list-style-type: none"> ▪ The Tendering and Bidding Law 	<ul style="list-style-type: none"> ▪ Ministry of Health 	<ul style="list-style-type: none"> ▪ Medicine tendering centres 	<ul style="list-style-type: none"> ▪ Audit Office ▪ Ministry of Supervision

Device (Public Hospital)	<ul style="list-style-type: none"> ▪ The Government Procurement Law ▪ Derivative regulations issued by NDRC and Ministry of Health 			
<ul style="list-style-type: none"> ▪ Land Use Right and Mining Transfer (Property Transaction) 	<ul style="list-style-type: none"> ▪ The Tendering and Bidding Law ▪ Derivative regulations issued by the NDRC and the Ministry of Land and Resources 	<ul style="list-style-type: none"> ▪ Ministry of Land and Resources 	<ul style="list-style-type: none"> ▪ Auction companies 	<ul style="list-style-type: none"> ▪ Audit Office ▪ Ministry of Supervision

(Source: Wang and Li 2014)

According to Na (2012:71), China’s ongoing institutional reform has brought about payment methods to support bidding system in public procurement. Na (2012:71) further points out that the Chinese Treasury’s centralised payment system processes payments for government procurement. The system was set up in 2001, whereby each budget unit opens a Treasury payment account at a designated bank. When a procurement project is completed, the unit provides payment documents, procurement contracts, invoices and delivery reports to the financial department, which examines these documents and then requests the bank to transfer corresponding purchasing funds directly from the Treasury account of the budget unit to a receiver. Na (2012:71) cites that because these funds are not transferred through purchasing institutions, the Treasury centralised payment system prevents officials from retaining or misappropriating financial funds in public procurement.

Na (2012:71) further explains that the Chinese government needs to take some steps to improve their procurement management practices on a continuous basis. Such steps should include the development of a uniform model and guidelines for the proper management of suppliers so that procurement management practices in ministries, regional and municipal level are empowered to create fair opportunities for national and international suppliers to grow the economy.

Although the South African procurement and SCM system is decentralised in South Africa in comparison with the Procurement Practices in China, South African municipalities struggling with prompt payment of suppliers could benefit from implementing a Central Procurement Catalogue as the one used in China. The products, services and works that must be procured could be listed and municipalities may only procure listed items from listed suppliers at the stated price, quantities and quality to avoid inefficiency towards procurement and SCM practices. Another lesson learned from China is that the Treasury's centralised payment system could be adopted. The system will assist each struggling municipality or district municipality to open the municipality or treasury payment account at a designated bank. When a procurement project is completed, the district municipality provides payment documents, procurement contracts, invoices and delivery reports to the financial department at the Provincial Treasury, which examines these documents and then requests the bank to transfer corresponding purchasing funds directly from the treasury account of the budget unit to a receiver. From the above it is clear that South African local municipalities could learn viable lessons from the Chinese Framework of Public Procurement. The next section provides a discussion about the South African Models/Frameworks and guidelines for procurement and SCM in municipalities.

2.9.6 South African Models/Framework and Guidelines for Procurement and SCM in Municipalities

According to Ambe and Badenhorst-Weiss (2013:246), the South African government uses SCM and public procurement as a policy tool to demonstrate the importance of procurement in correcting past inequalities and to uplift vulnerable groups disadvantaged by unfair discrimination such as SMMEs suppliers. Fourie (2018:731) mentions that Section 217(1) of the *Constitution* (RSA, 1996) provides the basis for the implementation of procurement and SCM and requires that when organs of state in the national, provincial or local government contract for goods or services it must be fair, equitable, transparent, competitive and cost-effective. According to Fourie (2018:731) Section 217(2) and Subsection (1) of the *Constitution* (RSA, 1996) further provide that the organs of state are not prevented 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, disadvantaged by unfair discrimination. Section 217(3) of the *Constitution* (RSA, 1996) provides that national legislation must prescribe a framework within which the preference

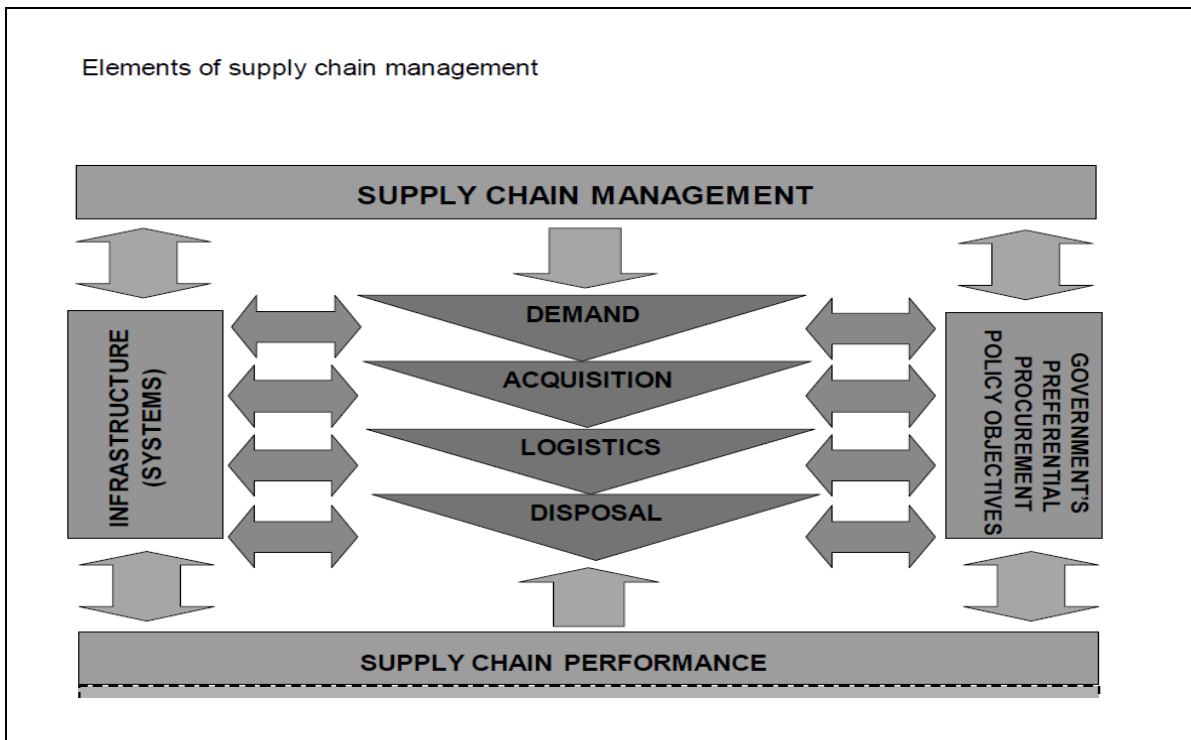
policy may be implemented (Fourie 2018:730). To implement the above constitutional requirements, the South African government passed the *PPPFA* (RSA, 2000), which requires that during awarding of procurement contracts by procurement and SCM, managers' preferences should be granted to historically disadvantaged persons, such as SMME suppliers doing business with municipalities.

In September 2003, the South African Cabinet approved the implementation of South African SCM system for the procurement and disposal of assets also known as the SCM framework. The SCM framework as provided in *SCM Guide for Accounting Officers of Municipalities and Municipal Entities* (RSA, 2005a:11) consist of six elements namely, demand, acquisition, logistics, disposal, and performance evaluation (National Treasury, RSA, 2005a:11; Ambe, 2016:23-24). The SCM framework of which public procurement is an integral part conforms to international best practices in procurement and SCM in municipalities. The SCM framework promote uniformity in terms of the processes followed by procurement and SCM managers of municipalities. The responsibility and accountability for SCM functions are devolved to all accounting officers of municipalities. The National Treasury (RSA, 2005a) was developed to give guidance to the implementation of the SCM framework and its related managerial responsibilities assigned to accounting officers including that of municipalities (National Treasury, RSA, 2005a). Fourie (2018:731) argues that the objectives of the National Treasury (RSA, 2005a) is to give effect to preferential procurement required by the following:

- To give effect to the provisions of the *Constitution* (RSA,1996);
- To give effect to the provisions of the *MFMA* (RSA, 2003);
- To transform outdated procurement and provisioning practices into an integrated SCM function;
- To ensure that SCM forms an integral part of the financial management system of the municipality/municipal entity;
- To make significant improvements to financial management in the broader public sector;
- To introduce a system for the appointment of consultants;
- To create a common understanding and interpretation of government's preferential procurement policy objectives;

- To promote consistency in respect of SCM policy and other related policy initiatives in Government; and
- To align with global trends and ensure that South Africa adheres to international best practices (National Treasury (RSA, 2005a).

According to Naude *et al.* (2013:3), SCM in the South African context operates within a legislative framework that is based on norms and standards to create uniformity. The SCM framework is therefore based on the following constitutional norms and standards, namely equity, fairness, transparency, competitiveness and cost-effectiveness or value for money. The South African SCM (SCM) System for the procurement and disposal of assets is illustrated in Figure 2.1 below:



(Source: SCM: National Treasury (RSA, 2005a; Ambe, 2016:24; Moeti, 2014:148)

Figure 2.1: South African SCM (SCM) System for the procurement and disposal of assets

As indicated in Figure 2.1 above, the elements/components of SCM, namely demand, acquisition, logistics, disposal and performance management are essential in managing procurement and the SCM in municipalities to ensure effective service delivery.

The above elements/components as discussed in the previous chapter of this study form the basis of the SCM framework that were implemented in 2003 across all three spheres of government including local municipalities. The explanations of the detailed application of the

above are outlined in chapter 3 of this study. Each of the functional elements/components of the SCM framework are outlined below.

2.9.6.1 Demand management

According to Ambe (2014:24), the demand management marks the beginning of public procurement processes where planning takes place. The focus of municipal management is on the consideration of the needs identified at the strategic planning of the municipality and municipal entity's IDP, where the decision and specifications are determined about the type of goods, works and/or services to be procured; and industry is analysed to ensure the reliable supplier with requisite capacity delivers goods, services and works according to the right quality, quantities and costs. This is the phase where the management determines to achieve value for money based on the available budget and programme for the municipality/municipal entity's IDP. However, a vast number of suppliers doing business with municipalities, whose invoices are not paid, indicate that there is a challenge with municipal budget. Cash-flow measures need to be put in place to enhance procurement management practices, particularly in the district municipalities (Ambe, 2016:24; National Treasury, RSA, 2005a:11-12; Khalo and Vyas-Doorgapersad in van der Waldt 2018:245; Naude et al., 2013:3-4; Mokotedi 2016:16-17).

2.9.6.2 Acquisition management

Ambe (2014:24) and Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:245) maintain that management of procurement is one of the core components of SCM, where the principles of equity, fairness, transparency, competitiveness and cost-effectiveness need to be displayed by management of municipality and municipal entity with a view to decide on the manner in which the market, particularly the SMMEs intending to do business with municipality are approached. After the demand stage it is necessary to acquire goods and services. This is done by developing a plan on how goods and services are to be procured. Acquisition management entails the evaluation of bids, the establishment of a bid committee, keeping of a register of defaulters.

According to National Treasury (RSA, 2005a:12), acquisition management requires the following from municipalities and municipal entities:

- to establish the total cost of ownership of a particular type of asset to ensure that bid documentation is complete, including evaluation criteria;
- to evaluate bids in accordance with published criteria; and
- to ensure that proper contract documents are signed with competent suppliers.

During the acquisition stage it is important for the management of a municipal entity or municipality to appoint suitable specification, evaluation and adjudication committees to award contracts in a fair, transparent, competitiveness and cost-effective manner. However, one could argue that the numerous unfinished infrastructure projects in communities (total of 67% of municipalities) as reported by the Auditor-General are related to uncompetitive and unfair procurement processes and due to the fact that municipalities do not invite quotations or competitive bids (AGSA, RSA 2017:15). The latter is an indication that there is a need to improve SCM and procurement practices, including acquisition management within municipalities (National Treasury, RSA, 2005a:12; Khalo and Vyas-Doorgapersad in Van der Waldt et al., 2018:245; Mokotedi 2016:17-19).

2.9.6.3 Logistics management

Logistics management is the stage where the municipal management ensures the right quality and quantity of inventory levels are set, as well as that the required materials are received and distributed at the right place and time. Municipalities' must ensure that stores, warehouse and transport management offer the best service to the communities it serves (National Treasury, RSA, 2005a:12). From these processes, the effective financial management system should be activated to generate payments to ensure that payment period of SMME suppliers doing business with municipalities do not exceed 30 days following receipt of the required invoice. However, municipalities are consistently not fulfilling the statutory obligation as stated in Section 65(2) and Section 99(2)(b) of the *MFMA* (2003), which instruct municipal managers to pay all money owed by the municipalities within 30 days of receiving relevant invoice or statement. One could argue that the reports of Auditor-General continuously indicate that suppliers are not paid within 30 days as required, an indication that SCM and procurement practices within municipalities must ensure that SMME and other suppliers are paid within 30 days (Khalo and Vyas-Doorgapersad in Van der Waldt *et al.*, 2018:245; National Treasury RSA, 2005a:12; Mokotedi 2016:19).

2.9.6.4 Disposal management

Disposal management is the stage where municipal management considers obsolescence planning; maintaining a database of redundant material; inspecting material for potential re-use; determining a disposal strategy; and executing the physical disposal process (Ambe, 2016:245; National Treasury, RSA, 2005a:12). In addition, municipalities must appoint suitable committees to deal with disposals, and their recommendations are considered for disposal decisions. However, the huge amounts of redundant assets as provided in reports of the Auditor-General in different warehouses of municipalities indicate the need to enhance procurement management practices including disposal management of redundant assets, particularly in municipalities' (National Treasury (RSA, 2005a; Khalo and Vyas-Doorgapersad in van der Waldt 2018:245; Mokotedi 2016:20).

2.9.6.5 SCM performance management

This is where management of municipality undertakes a retrospective analysis to determine whether the proper processes have been followed and whether the desired objectives were achieved. Some of the issues that may be reviewed during this phase include the following, compliance with policy objectives; cost efficiency of SCM process (i.e. the cost of the process itself); whether supply chain practices are consistent with the Government's broader policy focus; and whether there are means to improve the system (National Treasury, RSA, 2005a:12). Concerns raised in National Treasury Circular 42 on Non-Payment of Obligations (RSA, 2009c) over the timely payment for services rendered and contractual obligations not met continuously, highlighting a sharp deterioration in payment for services rendered. Other contractual obligations indicate that there is no monitoring of processes, which clearly indicate deficiency and therefore the need to enhance procurement management practices particularly in the district municipalities (National Treasury (RSA, 2005a:12; National Treasury, 2009c).

Subsequent to the above SCM framework, the National Treasury issued numerous supporting guidelines and regulations such as the Policy Strategies to Guide Uniformity in Procurement Reform Process (RSA, 2003a), the Guide for Accounting Officers of Municipalities and Municipal Entities (RSA, 2005a) and the PPR (RSA, 2005c) the PPR (RSA, 2011c) and the amended PPR (RSA, 2017a) to guide the implementation of the decentralised SCM system of which and procurement form an integral part. The above relevant National Treasury Regulations serves as a statement of the government's commitment to give effect to the

constitutional requirements of a preferential procurement system, which requires all three spheres of government, an in particularly municipalities, which are at the centre of service delivery, to ensure emergence of sustainable SMME's suppliers doing business with government, to promote the economic and social well-being of all South Africans (National Treasury, RSA, 2005a; National Treasury, RSA, 2005c; National Treasury, RSA, 2011c; National Treasury, 2017a).

Fourie (2018:730) argues that the norms and standards of procurement and SCM as indicated below are rooted in Section 217(1) of the *Constitution* (RSA, 1996) and also reflected in National Treasury (RSA, 2011c) and the amended National Treasury RSA, 2017a). In addition, Jacobson (2007:34) provides that proper and successful government procurement relies on certain norms and standards also known as the “four pillars of procurement”, which are best described as pillars, because if any of one of them fails the procurement system as a whole fail. The Constitutional norms and standards or four pillars of procurement and SCM are outlined below:

- **Pillar one: Value for money.** According to Jacobson (2007:34) and Maleka (2016:30-31) value for money is an essential indicator against which a department and municipality must justify a procurement outcome. Price alone is often not a reliable indicator and departments and municipality will not necessarily obtain the best value for money by accepting the lowest price offer that meets mandatory requirements. Jacobson (2007:34) is of the opinion that the best value for money entails the best available outcome when all relevant costs and benefits over the procurement cycle are considered. The procurement function itself must also provide value for money and be carried out in a cost-effective way. The National Treasury (RSA, 2003c:2) states that a procurement organisation, whether centrally located or devolved to individual departments and municipalities should avoid any unnecessary costs and delays for themselves or suppliers; monitor the supply arrangements and reconsider them if they cease to provide the expected benefits and ensure continuous improvement in the efficiency of internal processes and systems. Hugo and Badenhorst-Weiss (2013:294-295) point out that it is the responsibility of the management of municipalities to enable the emergence of SMME businesses and further provide that departments and municipalities need to apply effort and research to get suppliers, as well as to consider value for money and cost-effectiveness and with the implementation of a small supplier management purchasing

programme. Hugo and Badenhorst-Weiss (2013:294-295) further maintain that the closure of many emerging small, medium and micro-businesses and suppliers doing business with government institutions, including municipalities before they reach five years, indicate that there is an urgent need to enhance procurement management practices, particularly in district municipalities (Hugo and Badenhorst-Weiss, 2013:294-295; Jacobson, 2007:34; Munzhedzi, 2016:5).

- **Pillar two: Open and effective competition.** Open and effective competition requires a framework of SCM procurement laws, legislation, regulation, policies, practices and procedures that are transparent, readily accessible to all parties; promote openness in the procurement process; and encourage effective competition through SCM and procurement methods suited to market circumstances (Jacobson 2007:34-35; Munzhedzi 2016:5; Maleka 2016:31). The National Treasury (RSA, 2003c:2) provides that the best possible outcome from the market is by ensuring that potential suppliers have reasonable access to procurement opportunities and that available opportunities are indicated at least in the Government Tender Bulletin. Furthermore, in the case where market circumstances limit competition departments and municipalities must recognise that their SCM and procurement methods and practices ensures that adequate and timely information must be provided to suppliers to enable them to bid; biasness and favouritism must be eliminated and the costs of bidding for opportunities should not deter competent suppliers. Furthermore, the costs incurred in promoting competition must at least be commensurate with the benefits received. Therefore, it is vital for the management of municipality to implement effective, yet transparent SCM and procurement management practices to decide about the right supplier, since this supplier contributes to the success of the institution (Jacobson, 2007:34-35; Munzhedzi, 2016:5; National Treasury, RSA, 2003c:2).
- **Pillar three: Ethics and fair dealing.** National Treasury (RSA, 2003c:3) provides that all parties must comply with ethical standards to ensure that SCM and procurement practices are based on mutual trust and respect and that municipalities conduct their business in a fair and reasonable manner as well as with integrity. All government officials, particularly those at municipal level associated with SCM and procurement practices, and more particularly, those dealing direct with suppliers or potential suppliers are required to declare conflicts of interest or the potential thereof. Subsequently to deal

with suppliers even-handedly, ensure they do not compromise the standing of the state through acceptance of gifts or hospitality; be scrupulous in their use of public property; and to provide all assistance in the elimination of fraud and corruption. The repetitive, routine and monotonous reports of Auditor-General such as consolidated Audit Reports on municipality report that regarding in municipalities award contracts to unqualified suppliers, despite numerous guidelines provided by the South African government on ethical requirements, transparency and accountability is a clear indication that there is a need to enhance SCM and procurement management practices, particularly in the municipalities (National Treasury, RSA, 2003c:3; Munzhedzi, 2016:5; Maleka 2016:30).

- **Pillar four: Accountability and reporting.** According to National Treasury (RSA, 2003c:3), accountability and reporting involves ensuring that individuals, organisations and municipalities are answerable for their plans including IDPs, actions and outcomes. Jacobson (2007:36-37) avers that openness and transparency in administration, through external scrutiny by means of public reporting, can be seen as an essential element of accountability. Within the procurement framework, heads of departments and municipal managers are accountable to their ministers and Mayoral committees for the overall management of procurement activities. Furthermore, heads of procurement and senior procurement directors are accountable to heads of departments and municipal managers for various high-level management and coordination activities, whereas individual procurement officers are accountable to Heads of SCM and Procurement and to their clients for the services they provide. Therefore, all staff responsible for SCM and procurement functions must adhere to these guidelines and are accountable to management for the manner in which they fulfil their functions. Awarding of contracts to suppliers that were developed and capacitated prior to awarding of contracts makes the task of management of municipalities easier in terms of reporting and accounting to their communities they serve. On the other hand, unfinished and shoddy projects give municipality management nothing to report to the communities. (National Treasury, RSA, 2003c:2; Jacobson, 2007:36-37; Munzhedzi, 2016:5; Maleka 2016:32).

In the light of the above, Jacobson (2007:34) argues that the major intention of the government of South Africa is to prescribe the four pillars for the development of the emerging sustainable SMMEs and suppliers doing business with government to expand the number of potential suppliers delivering effective service in the communities they serve. Rambe and Makhalemele

(2015:4) observe that SMMEs in South Africa fail to survive during their first three years of existence. The low survival and high failure rates of SMMEs and suppliers in South Africa are attributed to the lack of managerial competencies of the managers or owners of those SMMEs. One could further argue that the late and non-payment of suppliers by government of which municipalities cannot be excluded, which is exacerbated by inefficient procurement practices also contributed to failure to SMMEs. For the purpose of this study, the SCM tools to improve the performance of SCM was discussed in the next chapter.

2.10 SUMMARY

This chapter investigated applicable literature on overview of public procurement management in South Africa. It also investigated a shift from public procurement management to SCM role-players in SCM, statutory and legislative frameworks of procurement and SCM in local government, advantages of SCM, categories of SCM, e-procurement and international and national models and guidelines for procurement and SCM in municipalities.

Reforms in public procurement in South African government relate to the decentralisation of the process of procurement through tendering and secondly with the introduction of a new system of procurement and asset disposal based on SCM principles. It was emphasised that National Treasury regulates the SCM system by providing for the following elements namely; demand management, acquisition management, logistics management, disposal management and SCM performance. SCM in the public sector, of which municipalities cannot be excluded, forms an integral part of financial management that seeks to introduce internationally accepted best practice. Thus, SCM bridges the gap between traditional methods of procuring goods and services and the balance of the SCM whilst addressing procurement related matters that are of strategic importance to any public sector governmental body.

The literature in this chapter described specific statutory legislative frameworks – the *Constitution* (RSA, 1996); *MFMA* (RSA, 2003); *PPPFA* (RSA, 2000); *BBBEEA* (RSA, 2005) *National Small Business Act* (RSA, 2003) that were reviewed. The objective thereof in relation to municipal procurement-management practices, SCM and the management of suppliers to promote socio-economic development in South African local government were highlighted. Thus, the *PPPFA* (RSA, 2000) has turned out to be a significant vehicle by which the government can provide economic opportunities to previously disadvantaged groups, particularly SMMEs suppliers doing business with government. It was argued in the literature.

One could argue that efforts must be undertaken by procurement and SCM managers to ensure that there is management of suppliers to contribute to the effective public procurement management and SCM practices in the municipalities and district municipalities.

The chapter further emphasised that supplier management, as part of SCM, is a key success factor in terms of ensuring effective procurement management practices in municipalities. It will enable municipalities to spend wisely and ultimately make prompt payment of what is due to suppliers and contractors. The continuous engagements with managed suppliers will ensure that procurement practices are economical and efficient. This will create opportunities for SMME suppliers particularly doing business with government to grow the economy and create jobs.

It is clear that Section 217(1) of the *Constitution* (RSA, 1996) provides the basis for procurement SCM, which requires that when organs of state in national, provincial and local government contract for goods and services it must be fair, equitable, transparent, competitive and cost-effective. Section 217(2) of the *Constitution* (RSA, 1996) provides the categories of preference in the allocation of contracts and bids. It was emphasised that in terms Section 38(1) of *PFMA* (RSA, 1999), National Treasury is mandated to issue a framework to all organs of state to give effect to the Constitutional requirements as required in Section 217(1) of *Constitution* (RSA, 1996).

In terms of Section 65(2)(e) of the *MFMA* (RSA, 2003), accounting officers of municipalities have to ensure that all money owed by the municipality are paid within 30 days of receiving the undisputed invoice or statement. Furthermore, accounting officers are required in terms of Section 97(3) of the *MFMA* (RSA, 2003) to inform the parent municipality immediately of any payments due by an organ of state to the entity in respect of service charges, if payments are regularly in arrears for periods of more than 30 days. Thus, suppliers who rendered services to municipalities must be paid within 30 days of receiving the invoice or statement.

Section 111 of *MFMA* (RSA, 2003) requires that each municipality and municipal entity must have an SCM policy to give effect to the above Constitutional requirement. It was also emphasised that in terms of Section 119 of *MFMA* (RSA, 2003) the accounting officer and any other official involved in procurement and SCM activities must meet prescribed competency levels of National Treasury. It is also clear that in terms of the *MFMA* (RSA, 2003) every municipality and municipal entity must adopt and implement a SCM policy. In terms of the

PPPFA (RSA, 2000) and *BBBEEA* (RSA, 2003) one could argue that the promotion of black economic empowerment, preferential treatment for previously disadvantaged individuals, the promotion of local or regional economic development and promotion of SMMEs suppliers is imperative.

In the discussion about the different procurement methods of capital operating expenditure it was mentioned that most municipalities disregard SCM legislation and regulations in particular concerning competitive bids and contract management. In this regard the Auditor-General point out that there was an increase in material non-compliance findings concerning SCM legislation and regulations from 63% in 2014-2015 to 73% in 2016-2017. The Auditor General further mentioned a total of 44% of all municipalities did not invite quotations or competitive bids as required in key SCM legislation and regulations which is a concern for the effective implementation of SCM and procurement in municipalities throughout South Africa.

In the discussion about e-Procurement it was emphasised that the National Treasury OCPO initiated the e-Tender portal as a first step towards implementing an e-Procurement system, whereby municipalities were expected to start using the e-Tender portal from 1 July 2015. Of a concern is that the e-Tender portal indicates that Free State municipalities utilise the system at a snail's pace.

In the discussion about international and national SCM and procurement models and frameworks it was mentioned that different countries construct different public management systems which is extended to public procurement as a result of these countries diverse political systems, distinct sociocultural forces and various economic developments. In the discussion of the United Nations Commission for the International Trade Law's Model of Procurement of Goods, Construction and Services (UNCITRAL) it is clear that South Africa could benefit from taking into consideration the objectives of UNCITRAL. The discussion provided that UNCITRAL's was undertaken in that a number of United Nations countries existing legislation governing procurement was perceived to be inadequate that resulted in inefficiency and ineffectiveness in the procurement process.

The discussion about Brazil indicated that procurement in this country is decentralised at three levels, Federal, State and Municipal levels of government. To give effect to the decentralised constitutional requirement of public procurement, the Procurement Law was passed in Brazil in 1993 and the Reverse Auction Law in 2002. In comparison with the Brazilian procurement

methods it was emphasised that all national, provincial and municipal suppliers intending to do business with the South African government must register on the CSD. It was further mentioned that South Africa, could learn valuable lessons from the Reverse Auction Brazilian Law to generate much-needed savings to have adequate cash flow to pay suppliers promptly. It was argued that South Africa could learn valuable lesson from the Reverse Auction Brazilian Law. A similar law could be implemented by the South African government to generate much-needed savings to have adequate cash flow to pay suppliers promptly. In comparison with the procurement practices in Russia, the South African municipalities, could benefit from implementing a transparent system of planned procurement based on annual and three-year procurement plans as applied in Russia. Another lesson learned from Russia is that municipalities in South Africa should listed the envisaged products, services and works to be procured as well as the estimated values and may only procure these listed items from listed suppliers at the stated price, quantities and quality to avoid inefficiency towards SCM practices. The discussion about procurement in India show that e-procurement and e-portal systems in Indian is well establish in comparison with the eTender system in South Africa, which is only used for the publication of bids and awarded of tenders. The eTender system in South Africa does not enhance transparency or reduce corruption in terms of evaluation and adjudication of bids.

Although the South African procurement and SCM system is decentralised in South Africa in comparison with the procurement practices in China, South African municipalities struggling with prompt payment to suppliers could benefit from implementing a procurement catalogue as the one used in China. The products, services and works that must be procured could be listed and municipalities may only procure listed items from listed suppliers at the stated price, quantities and quality to avoid inefficiency towards procurement and SCM practices. Another lesson learned from China is that the Treasury's centralised payment system could be adopted. It was mentioned that the system could assist each struggling municipality or district municipality to open the municipality or treasury payment account at a designated bank. When a procurement project is completed, the district municipality provides payment documents, procurement contracts, invoices and delivery reports to the financial department at the Provincial Treasury, which could examine these documents and then requests the bank to transfer corresponding purchasing funds directly from the treasury account of the budget unit to a receiver.

In the discussion about the South African SCM framework it was mentioned that the South African Cabinet approved the implementation of the SCM framework in September 2003 to give effect to the notion of preferential procurement and the constitutional norms and standards, namely equity, fairness, transparency, competitiveness and cost-effectiveness or value for money. The SCM framework promote uniformity in terms of the processes followed by procurement and SCM managers. However, the responsibility and accountability for SCM functions are devolved to all accounting officers of the three spheres of government including municipalities. To give effect to the implementation of the SCM framework, the National Treasury developed the PPR (RSA, 2011c) and the amended PPR (RSA, 2017a) and supportive guidelines including the SCM Guide for Accounting Officers of municipalities and Municipal Entities (RSA, 2005a) and the Municipal SCM Regulations (RSA, 2005b) to give guidance to the implementation of the SCM framework related managerial responsibilities assigned to accounting officers of the public sector including municipalities (National Treasury, RSA, 2001c; National Treasury, RSA, RSA, 2017a; National Treasury, RSA, 2005a; National Treasury, RSA, 2005b). It was emphasised that the SCM framework of which procurement forms an integral part consist of six elements namely, demand, acquisition, logistics, disposal, and performance evaluation. The next literature chapter provides an overview of SCM in local government.

CHAPTER THREE: AN OVERVIEW OF SUPPLY CHAIN MANAGEMENT IN LOCAL GOVERNMENT WITH SPECIFIC REFERENCE TO SUPPLIERS AND THE LATE- PAYMENT OR NON-PAYMENT TO SUPPLIERS

3.1 INTRODUCTION

This SCM system, which was introduced by the South African government in 2003, were supported by the introduction of a number of legislative measures, such as the *MFMA* (RSA, 2003), which provides in Section 62(1)(f)(iv) that the municipality must implement a SCM policy in accordance with Chapter 11 of the Act. The SCM policy of the municipality must comply with the provisions provided in Chapter 2 of National Treasury (RSA, 2005a) in order to ensure that SCM is fair, equitable, transparent, competitive and cost effective.

The purpose of this chapter is to provide an in-depth discussion of the four elements of SCM, suppliers and the late-payment or non-payment to suppliers. Therefore, this chapter commences with a detail discussion about the elements of SCM, namely demand management, acquisition management, logistic management and supplier performance evaluation as provided in Section 9(a-b) of the (National Treasury, RSA, 2005b). The various SCM tools that can be used to improve SCM performance were outlined. The following aspects about suppliers or creditors who deliver goods or services to municipalities, namely purchasing and suppliers, supplier selection, supplier relationship management and supplier development were described. The outstanding accounts and payments of supplier invoices, the reasons for late and non-payment of suppliers by municipalities was discussed and lastly an evaluation of late and non-payment of suppliers or creditors over three years at municipalities in the Free State was provided in this chapter. The elements or processes of SCM were provided in the following sections below.

3.2. DEMAND MANAGEMENT AS THE FIRST ELEMENT OF SCM

Livhuwani (2012:15) indicates that demand management is the first step in the supply chain process. The demand management stage is the most critical phase in the SCM process, where suppliers who have good performance records, skills, quality, experience, previous performance and value for money should be taken into account to test the bidder's ability to deliver on the contract. Demand management plays an essential part in SCM of ensuring that all planned goods and services determined during the strategic planning process are delivered at the correct time, price and place, and that the quantity and the quality will be of requisite

satisfaction and from the right supplier within the confines of the National Treasury, (RSA, 2011c) and *BBBEEA* (RSA, 2003) (Fourie and Opperman, 2011:339).

In terms of Regulation 10 of the National Treasury (RSA, 2005a), the SCM policy of the municipality must provide for a fair, equitable, transparent, competitive, cost-effective and effective system of demand management. According to Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:244), fairness requires that when the municipality procures goods and services from suppliers, all potential suppliers must have an equal opportunity to bid for the contract to supply goods or to render a particular service to the municipality. Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:244) further aver that fairness can only be achieved when bids are advertised in local and national newspapers, by indicating the requirements, the closing date and time of bids. Fairness further requires that once bids are submitted on time as required. All bids must be considered and the preferred bidder must be chosen in accordance with the requirements contained in the advertisement and bid documents.

Equity requires that all prospective suppliers must be given an equal opportunity to submit their bids for supply of the requirements of a particular municipality. Transparency requires that the municipality must ensure openness in the procurement of goods or services in that all bids must be advertised in national and local newspapers, and it must be advertised on municipal notice boards. Regulation 10 of the National Treasury (RSA, 2005a) requires that in terms of cost effectiveness, prospective suppliers of goods and services must compete against one another through bids, and that municipalities must ensure that goods and services are procured cost effectively (Khalo and Vyas-Doorgapersad in Van der Waldt *et al.*, 2018:244; Fourie and Opperman, 2011:339).

In terms of Regulation 38 of the National Treasury (RSA, 2005a), the SCM policy of the municipality must provide measures for the combating of abuse of the SCM system within the municipality. Regulation 46 of the National Treasury (RSA, 2005a) requires that the SCM policy must establish a code of ethical standards for officials and other role players in the SCM system. The aim is to promote mutual trust and respect as well as to create an environment where business can be conducted with integrity and in a fair and reasonable manner (Fourie and Opperman, 2015:382-383; National Treasury, RSA, 2005a). The above imply that fair, equitable, transparent, competitive, cost-effective and effectiveness are critical requirements of demand management processes within any municipality.

3.2.1. Needs analysis stage

According to SAMDI (RSA, 2004:3), the primary aim of the needs analysis stage is to determine goods and services to be procured within the financial year accurately. The intention is to ensure that all planned demands are acquired based on the municipalities' IDP as developed during the municipalities strategic planning process. It entails that all resources needed to satisfy the needs recognised in the IDP are analysed and planned, as well as the method to fulfil the need must be determined (Mokotedi 2016:17). This, is a crucial stage, and it is aimed at ensuring that goods and services allocated conform to the provisions of the identified needs.

3.2.2 Linking the need or demand to the budget stage

Demand management defines the decision-making process that ensures procurement of goods and service at the right time, in the right place and at the right possible price. A challenge faced by most government bodies including municipalities and municipal entities are, to link the demand to the budget. National Treasury (RSA, 2011c) provides that municipalities must plan for the estimated cost of goods and services, which the municipality seek to procure. Once the Municipal council has approved the IDP, the SCM manager should prioritise all demands in terms of envisaged cost. Cost-effective procurement required that all aspects of cost, such as contingency costs, manufacturer's costs, as well as depreciation of the rand, and VAT must be incorporate in the budget (Palama RSA, 2008:5: Bizana 2013:42; Maleka 2016:46). This, is a vital stage of SCM process.

3.2.3 Compiling specifications stage

Developing of specifications entails the process of outlining the exact and clear requirements and a complete description of what needs to be procured. Accurate specifications are the basis of the procurement of goods and services (Maleka 2016:46). Municipalities and municipal entities must appoint a bid specification committee with clear roles and responsibilities as well as the period of appointment. The bid specification committee is responsible to compile technical specifications, proper terms of reference, requirements, conditions of contracts, evaluation criteria, determine goals and indicate the method of procurement. The bid committee is also responsible to determine the necessary weights and values and threshold, application of strategic sourcing principles, ensuring proper market research and analysis, confirmation that the necessary funds are available, specifying the Special Conditions of

Contract (if applicable), and ensuring the preference point system prescribed is consistent with the requirements of the National Treasury (RSA, 2011c) and National Treasury (RSA, 2017a) (Livhuwani 2012:22; Thai 2009:13; Maleka 2016:46). The development of clear specifications will ensure that the evaluation process to determine what is required becomes very clear, and it will simplify the management of the tender contract.

3.2.4 Expenditure analysis stage

According to Thai (2009:30), the expenditure analysis phase assists municipalities and municipal entities to be well informed about the different aspect of the various goods and services they intend acquiring. Chetty (2015:87) provides that expenditure projections in municipalities and municipal entities are identified during the budget preparation process. Mokotedi (2016:18) provides that it is the responsibility of the SCM officials to ensure that procurement by the municipality is executed in accordance with set procedures and that expenditure on goods and services incurred according to an approved budget. Similar to the viewpoints provided above National Treasury (RSA, 2008a:97) agrees that the municipality has to ensure that spending on necessities is incurred in terms of the municipal approved budget, and that it is in accordance with the threshold values for the different procurement processes and tender documents, evaluation and adjudication criteria.

Palama (RSA, 2008:7-8) emphasises that this process is informed by commodity analysis undertaken by competent and highly experienced commodity teams made up of representatives of the SCM office, budget and legal office. As part of a commodity analysis Smith, Buddress and Raedels (2006:3) and Palama (RSA, 2008:3) assert that the following activities, should enable the municipality to identify procurement trends, buying patterns and opportunities for strategic sourcing, which result in cost savings and quality improvements, namely:

- **Ranking of suppliers.** The ranking of all suppliers should be according to the amount spent per supplier.
- **Link suppliers to expenditure per division.** Linking a specific supplier to expenditure per division is necessary to be able to indicate the quantity, the type and the value of commodities that were purchased by a specific division or department (Smith *et al.*, 20016:3).

- **Spending by order method.** The spending by order method requires an analysis of the data in terms of what kind of purchasing methods were utilised. It is necessary to determine whether the order was as official hand-written order, electronic order, credit and petty cash.
- **Analysis of commodities.** It requires the analysis of the commodity individually and per group of items that were purchased from a particular local supplier.
- **Costing.** An analysis of the costing of doing business with specific suppliers, also necessitates an analysis of the total overall cost of all transactions involved in obtaining a commodity from the suppliers.
- **Transactions involved in obtaining a particular commodity.** The total number of transactions involves necessitating an analysis of all the transactions that were involved in obtaining a particular commodity.
- **Keeping of an inventory.** By keeping an inventory requires an analysis of inventory levels of all items that should be kept in a warehouse.
- **Lead-time.** In order to determine the duration of lead-time, an analysis of the average duration for suppliers to deliver a particular commodity after an order has been placed by the municipality or municipal entity is required.
- **Supplier performance.** Suppliers' performance requires an analysis of the performance of suppliers in accordance with the delivery of goods and services to a particular municipality. Supplier performance also requires an analysis of the history of poor-performance or the breaching of contract.
- **Geographical location.** The geographical location requires an analysis of suppliers that are geographically situated to provide goods and services to the municipality or municipal entity. In the case of the supply of perishable commodities, preference should be given to a local geographical located supplier.
- **Type of commodities and specifications.** The commodities that were actually supplied by a particular supplier require an analysis of the types of commodities that were actually supplied by a particular supplier. The reason for the analysis of the type of commodities is that this type of information is crucial to improving the specifications or the terms of reference.

- **Brands supplied.** The brands supplied require an analysis of the brand or trademark of the commodities that were purchased by the municipality or municipal entity. It requires an analysis per product, make, model, compatibility and the possible integration of these commodities.
- **Suppliers frequently utilised.** Suppliers that are frequently utilised by a particular municipality require an analysis of the specific suppliers contracted including an analysis of how frequently the services of these particular suppliers were used.
- **Price analysis.** A price analysis includes the price escalation requested by a specific supplier during a certain period. The price analysis should also include information about the price escalations per commodity during a certain period, price comparisons between the various cost centres, and price movements tracked against key indicators. The various key indicators include aspects such as Producer Price Index (PPI), Consumer Price Index (CPI), exchange rates or commodity indices at either supplier or commodity level.
- **Cost of ownership principle.** Another aspect that should also be determined is the total cost of ownership (TCO) principle that includes the life cycle cost and inventory carrying cost. Therefore, the accounting officer of the municipality should attend to the total cost of ownership, which includes the cost of obtaining a product or service, getting it to the point of use and the cost of customer support. In this way, the purchasing price plus all other costs of a given product throughout its lifetime should be determined (National Treasury, RSA, 2003a:22; Smith *et al.*, 2006:3; Palama, RSA, 2008:3).

From the above one can assume that the accounting officer of the municipality should attend to the total cost of ownership, which includes the cost of obtaining a product or service, getting it to the point of use and the cost of customer support. Furthermore, the purchasing price plus all other costs of a given product throughout its lifetime should be determined. The identification of procurement trends, buying patterns and opportunities for strategic sourcing, which result in cost savings and quality improvements of a product or service was also mentioned above. Thus, municipalities should consider the above activities to enable them to save on costs and to improve quality of products obtained from suppliers.

Thai (2009:701) concurs that after knowing the various ways prices of a product or service are determined in the market, the municipality must still decide on the price it is willing to pay for

the goods or service. Thai (2009:701) further argues that the municipality must also determine whether the price for a product or service is an acceptable price paid by the public (the commercial price) for the particular product. Except for the above, the municipality must recognise that in addition to market conditions in which supply, demand, technology, and product design change, prices are also determined by geographic location and government regulations. Smith *et al.* (2006:3) maintain that where there is competition, prices are likely to be lower than in markets without competition. The constant analysis of expenditure provides the municipality with valuable information to evaluate and reprioritise their necessities as provided in the municipality's procurement plan to ensure that it is consistent with the available cash flow. It should improve municipalities and municipal entities' cash reserves to maintain and replace assets that reach the end of their useful life and to pay suppliers and creditors such as Eskom within 30 days of receiving the correct invoice and statements (Thai, 2009:701; Smith *et al.*, 2006:3).

As a result of poor expenditure analysis most municipalities in the Free State Province have defaulted on timeous payments to their suppliers. As a result, Eskom plans to cut power supply to residents of the Free State, which punishes emerging women and youth-owned SMME suppliers and service-paying communities due to failure to pay electricity bills, which is an indication of the financial predicament the municipalities in the Free State finds itself. In this regard, Semenokane (2017:2) reports that penalties and interest for late payment of the Mangaung Metropolitan Municipalities creditors amount to 75% of the fruitless and wasteful expenditure. Semenokane (2017:2) further contends that the payment of Mangaung Metropolitan Municipality's creditors is 78 days. Wood (2018:11) reports that the cash flow of 64 of the 257 municipalities has a negative cash flow balance. In total, 28% of municipalities have enough cash in the bank to continue with their functions for a period of three months. Wood (2018:11) further states that a total of 84.9% of municipalities in the Free State are in arrears for a period longer than 90 days with their payment of suppliers. Another concern is that Mangaung Metropolitan Municipality in the Free State Province owes a total of R146 393 000 to the suppliers of water, and owes Eskom a total of R146 393 000 (Wood, 2018:11). The latter is an indication of poor expenditure and commodity analysis on the part of municipalities in the Free State Province.

Selebano (2018:2) points out that public institutions, of which municipalities cannot be excluded deviate from regulations to obtain tenders. Although National Treasury regulations

allow deviations from the procurement and SCM regulations in exceptional circumstances, public institutions misused this clause to justify fruitless and wasteful expenditure. Selebano (2018:2) further warns that although deviations from National Treasury regulations should be allowed only in exceptional circumstances, these deviations have become the norm and public institutions use these loopholes to deviate from procurement and SCM frameworks and regulations. It can therefore, be argued that poor demand management and poor expenditure analysis and planning further contributes to deviations from National Treasury regulations and policies.

3.2.5 Market and industry analysis stage

According to Palama (RSA, 2008:8), the market and industry analysis stage forms part of municipal planning whereby the municipality and its entities determine the various aspects and cost bases of the various kinds of supply groups, which entails SMMEs, emerging companies, large corporate companies, foreign suppliers and local suppliers. Hugo and Badenhorst-Weiss (2013:291) maintain that although the OCPO has introduced a CSD with more than 300 000 suppliers for all organs of state to procure from, there is a need to do market and industry analysis to avoid capacity constraints of some SMME suppliers.

3.2.6 Develop a strategy stage

According to Hugo and Badenhorst-Weiss (2013:61-62), the strategy stage requires that information that was gathered during the previous stages must be structured into a format which makes it possible for the municipality to develop procurement strategy. Hugo and Badenhorst-Weiss (2013:61-62) state that the portfolio analysis matrix or strategic sourcing matrix may be used by the municipality to develop its procurement strategy. The strategic sourcing matrix assists the municipality in dividing its total spending into different categories according to the risks involved in the supply of the commodity, which is based on the complexity of the commodity, the number of suppliers in the market and the amount spent on the commodity as provided in Table 3.1 below.

Table 3.1: Strategic Sourcing Matrix

High Risk	Bottleneck <ul style="list-style-type: none"> ▪ Substitution difficult ▪ Monopolistic Markets ▪ High barriers to entry ▪ Geographical/Political ▪ Complexity 	Critical <ul style="list-style-type: none"> ▪ Substitution difficult ▪ Strategic importance ▪ High value in total ▪ Purchasing spend
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Complexity	Routine	Leverage
Low	<ul style="list-style-type: none"> ▪ Substitution possible ▪ Alternative suppliers and products available ▪ Standard product ▪ Specifications 	<ul style="list-style-type: none"> ▪ Substitution possible ▪ Alternative suppliers and products available ▪ Standard product specifications
Small	Amount Spent	Large

(Source: Adapted from Hugo and Badenhorst-Weiss, 2013:61-62).

From 3.1 above one could interpret that all the products or services that an organisation or public institution purchases can be divided into categories such as routine, leverage, bottleneck and critical. Items in each of the categories are managed in a different way. The right supplier must be found for each category and an appropriate relationship must be formed with the suitable supplier. Each of the categories of the strategic sourcing matrix as indicated in Figure 3.1 above are discussed below:

- **Routine Category.** According to Hugo and Badenhorst-Weiss (2013:61-62), the supply risks are low due to easy substitution possibilities, many suppliers, high availability and standard specification, and the low amount to be spent. Routine items include *inter alia* consumables or stationery. Alternative suppliers and products entail that pricelists can be used to determine which supplier to choose. Decisions are made by lower management level and without much effort to search for suppliers. The method of procurement can be quotations.
- **Leverage category.** According to Hugo and Badenhorst-Weiss (2013:61-62), items in the leverage category refer to amount up to R1 million spent. In this case, supply risks are low due to substitution possibilities, available alternative sources of supply and standard product specifications. Examples of the leverage category includes *inter alia* computer hardware. As such, tenders and quotes can be used as the method to choose a supplier from the many available. Table 3.1 above shows that thorough analysis of the capabilities of potential suppliers should be made to conclude a year's contract with these suppliers and to determine which orders can be made during that particular year. Hugo and Badenhorst-Weiss (2013:61-62) aver that a wide variety of items can be grouped together for this kind of contract. Furthermore, the use of e-procurement for the fulfilment of orders is typically part of this type of agreement.

- **Bottleneck category.** Table 3.1 above shows that for bottleneck items the amount that is spent is low, while the risks are high, because substitution is difficult, specification and manufacturing are complex, and the commodity has a big impact on the operations or the maintenance. Furthermore, the market is monopolistic, with barriers for competition to enter it, or the situation is geographically and politically complex. An example of this category is fuel supplies. Hugo and Badenhorst-Weiss (2013:61-62) point out that medium-term contracts with a close relationship between the institution and the supplier is applicable.
- **Critical category.** Table 3.1 shows that in this category, large amounts are spent on items and the risks of availability are high due to difficulty in substitution, the strategic importance of the item or service, and the large amount spent on it. Hugo and Badenhorst-Weiss (2013:61-62) explain that in this category the design and quality of the commodities are complex and critical, and there is limited or no competition. Furthermore, strategic alliances should be formed with suppliers of this type of purchase, where the institution and the suppliers work together in areas such as planning and research, and processes and information systems are linked in a strategic supply chain.

Thus, the above strategic sourcing matrix should assist the municipality to divide their total spending into different categories according to the risks involved in the supply of the goods and services, which is based on the complexity of the commodity, the number of suppliers in the market and the amount spent on the commodity. Furthermore, all the products or services which the municipality purchases can be divided into a four quadrant (routine, leverage, bottleneck and critical) categories. The items in each of the categories should be continuously managed in a different way and the right supplier must be found for each category to assist the municipality to form an appropriate relationship with the best suitable supplier.

3.2.7 Procurement plan

As part of the municipality's demand management the SCM unit of the municipality has to develop a procurement plan from its Integrated Demand Management Plan (IDMP) (Core Focus, 2015:20). The projects as provided in the municipality's IDP that do not overlap in the next fiscal year must also be identified and included in the procurement plan. Furthermore, the SCM management has to assign estimated values for each need on the IDMP. The procurement

plan must be developed from IDMP by including only items that are the most critical for the municipality's IDP, so that extra attention can be given to them. Projects that do not overlap in the next fiscal year must also be identified and included in the municipalities procurement plan.

Prior to approval of procurement plan, the municipality must ensure that the plan includes method of procurement, time lines to execute the procurement estimated values, confirmation that budget is available and each need clearly indicates which goals are intended to be achieved (Core Focus, 2015:20). Thus, the proper execution of the procurement plan will ensure that the municipality procures only what is planned. The section that follows focuses on the second element of SCM practices, which is acquisition management.

3.3 ACQUISITION MANAGEMENT AS THE SECOND ELEMENT OF SUPPLY CHAIN MANAGEMENT

Mokotedi (2016:17) and Maleka (2016:47) state that acquisition management refers to the purchasing of supplies by the government or public entities. Acquisition management must be performed in terms of the *PPPFA* (RSA, 2000) the *BBBEA*, 2003 and the *MFMA* (RSA, 2003). In terms of the National Treasury (RSA, 2003a:22), acquisition management is one of the core components of SCM to determine the BEE status level (Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:245). It is the duty of the SCM unit to determine the strategy of how the market is to be approached, followed by the determination of the list of accredited prospective suppliers, the compilation of the bid document and providing necessary conditions. Thereafter, the bids would be evaluated and a preferred SMME supplier recommended. Contract documents would be compiled and signed, and contract administration is implemented. Acquisition management involves the management of procurement by the municipality or municipal entity in order to ensure that all necessities are procured in accordance with authorised processes and in accordance with regulatory preferential procurement prescripts (The National Treasury RSA, 2008a:97; Maleka 2016:47-48; Bizana *et al.*, 2015:671; Matolong 2015:25-26; Mokotedi 2016:17-18).

In the light of the above, Maleka (2016:47-48) and Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:245) maintain that the activities of acquisition management are related to the following:

- The municipality has to develop a strategy on how goods and services are to be acquired from the identified suppliers in the market;

- The preparation of bid documents;
- The advertisements of bids in national and local newspapers;
- To determine the criteria that need to be followed for assessing the bids;
- To select the preferred bidder or supplier;
- To prepare contract documents; and
- The signing of contracts.

As part of acquisition management the SCM manager of the municipality has to ensure that bid documentation, advertising, receipt and adjudication procedures takes place in accordance with National Treasury regulations and procedures (National Treasury RSA, 2003a:15). The SCM manager of the municipality should also award contracts based on decisions that are fair, equitable, cost effective, competent and transparent, and in a manner that maintains the principles of openness and effective competition, ethics and fair dealing, accountability and reporting, equity and value for money. Thus, acquisition management is where the preferential procurement policy objectives are identified, bid documents are compiled and contract documents are signed. The stages of acquisition management are outlined in the discussion below.

3.3.1 Determination of BEE status level stage

According to Fourie and Opperman (2015:363), this is the stage where the municipality has to determine the BEE status level that needs to be achieved by the potential SMME suppliers to be awarded the contract. This level does not have to be calculated, as it is taken from a valid BBBEE certificate issued by accredited institutions and added to the calculated points for price. Matemotsa (2017:28) and Fourie and Opperman (2015:362) further provide that the National Treasury (RSA, 2017a) provide the following preference point system, or the points of either 80 or 90 points, which are awarded for price. As such, the municipality should base their decision on 80/20 threshold values for procurement of necessities from R30 000 to R1 million or 90/10 for procurement above R1 million. For control purposes, municipal management is allowed to employ 80/20 for bids with amounts below R30 000.

3.3.2 Determination of the procurement strategy stage

According to Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:246), the municipality procures goods and services through the bidding process and the SCM system. Therefore, the accounting officer of the municipality is responsible for ensuring the establishment, composition and functioning of bid committees; the selection of bid committee members; the prescribe bidding procedures; the adjudication of bids by the bid committee and the approval of the recommendations of the bid committee. Furthermore, the accounting officer of the municipality has to ensure that the municipality has a plan or a strategy in place on how goods and services are to be acquired in the market.

Mokotedi (2016:18) contend that the National Treasury (RSA, 2008a:113-114) requires that the municipality should make a decision about the various methods of procurement to be decided upon prior procurement of necessities as provided in the municipality’s procurement plan as indicated in Table 3.2 below.

Table 3.2 Range of Procurement Methods

PROCUREMENT METHODS			
Method of acquisition	Value (VAT included)	Process required	Delegations: Power of approval
Petty Cash Purchases	Up to R2000	Obtain by petty cash in line with internal prescribed procedures: <ul style="list-style-type: none"> ▪ To limiting petty cash purchases ▪ To limiting certain types of expenditure ▪ The requirement for monthly reconciliation from each manager to the CFO must include total amount of petty cash purchases for the particular month, and receipts and appropriate purchase documentation. 	Departmental Head (Programme manager) or delegated official
Verbal or written price quotations	Over R2 000 but less than R10 000	<ul style="list-style-type: none"> ▪ Obtain at least three verbal or written price quotations, preferably from a list of preferred accredited prospective suppliers. ▪ Where extended to non-listed providers, the minimum listing requirements must be met. ▪ Where three quotations could not be obtained, reasons must be recorded and approved by AO/CFO or designated official. 	Departmental head (Programme manager)

PROCUREMENT METHODS			
Method of acquisition	Value (VAT included)	Process required	Delegations: Power of approval
		<ul style="list-style-type: none"> Names and prices must be recorded. Order must be placed against written confirmation of selected supplier. 	
Formal written price quotations	Over R10 000 but less than R200 000	<p>To obtain written quotations from as many potential suppliers as possible, preferably from a list of preferred accredited prospective suppliers. In the case where extended to non-listed providers, the minimum listing requirements must be met.</p> <ul style="list-style-type: none"> Where three quotations could not be obtained, reasons must be recorded and approved by CFO or designated official. The names of potential providers and written quotations must be recorded. A summarised report of all procurement by means of quotations to CFO on a monthly basis. The abuse of this method must be avoided through inter alia proper record keeping. 	Accounting Officer/Chief Financial Officer
	Procurement above R30 000 but less than R200 000:	<p>In addition to the processes reflected above for formal written quotations, the following is required if above R30 000 but below R200 000:</p> <ul style="list-style-type: none"> The prescripts of the PPPFA and regulations applicable. It must be advertised for at least seven days on notice board and website. It must promote ongoing competition among potential providers (rotation of requests for quotations). 	Accounting Officer/Chief Financial Officer
Competitive bidding process	Procurement above R200 000 Procurement of long-term contracts (duration of more than one year)	To follow open, transparent, competitive bidding process.	Accounting Officer

(Source: Adapted from National Treasury, RSA, 2008a:113-114).

Table 3.2 above provides guidance to municipalities about the various methods of procurement to be decided upon prior procurement of necessities as provided in the municipality's

procurement plan. The above information should also assist the municipality not to waste time, funds and resources of both the municipality and suppliers by going through a lengthy competitive bidding process for necessities that are of lesser value and could have been bought through petty cash.

Mokotedi (2016:18-1) mentions that a tendering process for goods above R2000 000 is governed by the three bid committees, which was established in terms of National Treasury regulations. In this regard, Vabaza (2015:41) agrees that National Treasury prescribe a three tier committee approach for all competitive bidding. These committees are the bid specification committee, the bid evaluation committee and the bid adjudication committee, which must function separately from each other to ensure transparent, fair and competitive bidding process. The bid specification committee is responsible to compile technical specifications, requirements, conditions of contracts and governing the goals as outlined in the National Treasury *PPPFA* (RSA, 2005:22). The bid evaluation committee is responsible to evaluate bids of suppliers in accordance with the requirements of the National Treasury *PPPFA* (RSA, 2005:22). The outcomes of the bid evaluation committee is forwarded to the bid adjudication committee. The bid adjudication committee is responsible to consider suppliers that have been short listed by the bid evaluation committee. The bid adjudication committee has to make a determination subject to the provisions of the National Treasury *PPPFA* (RSA, 2005:22). The bid evaluation committee must use a comparative value programme which uses two pointers which include price and formula as required in the BBBEA for awarding contracts (RSA, 2003:20) (Mokotedi 2016:18-19; Fourie and Opperman 2015:362). Thus, the bid committee system is a mechanism to promote fair, transparent and competitive bidding in accordance with National Treasury regulations and the municipalities SCM policy.

3.3.3 Determination of prospective providers' stage

In terms of the National Treasury (RSA,2005b), which requires that the municipality must keep a list of prospective providers, has been replaced by the National Treasury (RSA, 2016f). This requires that the current list of prospective suppliers SCM system and policies of the respective organs of state be aligned with the provisions of the CSD. The CSD requires that price quotations be invited and accepted from prospective suppliers listed on CSD.

Municipality and their entities are not allowed to award any bid for price quotations to a bidder not registered on the CSD. According to Fourie and Opperman (2015:372) in terms of National

Treasury (RSA, 2016f), key information of prospective suppliers needs to be verified on the CSD prior to awarding any business to the supplier as follows:

- business registration, including details of directorship and membership;
- details concerning the bank account holder;
- tax compliance status;
- identity number;
- BBBEE status level;
- tender defaulting and restriction status; and
- any additional and supplementary verification information communicated by the National Treasury (Fourie and Opperman 2015:372).

In terms of Regulation 15 of National Treasury (RSA, 2005b:15) municipalities and municipal entities must indicate in their SCM Policy the circumstances on which to procure and not to procure through petty cash purchases, as well as how much percentage of the petty cash purchases budget will go for SMME suppliers who are youth, women, people with disabilities and people living in the rural areas.

In addition to the above, Regulation 16 of National Treasury (RSA,2005b: 15-16) instructs municipalities to indicate on their SCM Policy the circumstances on which to procure using written or verbal quotations. The conditions that need to be observed at all times include obtaining three quotations from at least three different providers from the CSD. Except for the above, the National Treasury (RSA,2005b:15-16) further states that in cases of emergency or suppliers being unavailable on CSD, market analysis should be undertaken and the potential suppliers be included on the CSD. If it is impossible to obtain three quotations, the reason should be recorded and approved by the municipal management and the records thereof should be recorded and kept safe for audit purposes (Fourie and Opperman, 2015:374; National Treasury, RSA, 2005b). This procurement method puts the municipality and their entities at risk of circumventing the normal processes of SCM and split the order so that verbal quotations are requested. This depletes the cash reserves that were meant for other service delivery targets of the municipality.

According to Vabaza (2015:39) the National Treasury Practice Note 8 (RSA 2007:2) provides that the accounting officer should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers registered on the central supply chain database (CSD) as possible. Vabaza (2015:39) further points out that that the invitation of price quotations from the CSD of prospective suppliers should be done on a rotational basis to promote ongoing competition among suppliers.

In terms of Regulation 17 of National Treasury (RSA,2005b:16) municipalities must indicate on their SCM Policy the circumstances under which commodities and services may be procured through formal written price quotations such as obtaining quotes in writing from at least three different providers whose names appear on the CSD. Fourie and Opperman (20015:374) further explain that in terms of Regulation 18 National Treasury (RSA, 2005b:16-17) municipalities must specify in their SCM policy the procedure to procure goods and services including the following procedure regarding written or verbal quotations and formal written price quotations.

The SCM Policy of the municipality must clearly indicate that advertisement of all necessities in excess of R30 000 (VAT included) to be procured by means of formal written quotations. In addition to the requirements of Regulation 17 (RSA, 2005b:16) formal written quotations must be publicised for at least seven days on the municipalities website and an official notice board of the municipality and municipal entity (Vabaza 2015:39). The SCM policy must further provides for the following:

- The CSD must be utilised to promote competition amongst SMMEs providers, including inviting SMME providers to submit quotations on a rotation basis;
- Municipalities must take care that there is no abuse of procurement of goods and services through written or verbal quotations or formal written price quotations;
- As such, municipalities must be notified in writing on a monthly basis of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation; and
- Municipalities have to ensure that record keeping must be done regularly (National Treasury, RSA, 2005b:16).

Except for the above Regulation 19 National Treasury (RSA,2005b:17) municipalities must specify on their SCM Policy that long-term contracts may only be procured through a competitive bidding process. There must also be an indication in the SCM policy of the municipality or municipal entity on the total percentage of the capital budget and operating budget that will be awarded to youth, women, and people with disabilities.

In light of the above Selebano (2018:2) cautions that public institutions, including municipalities, deviated from National Treasury (RSA, 2011c) and SCM frameworks to obtain tender contract. Selebano (2018:2) further warns that although National Treasury, (RSA, 2011c) and amended National Treasury (RSA, 2017a) allow deviations from these regulations in extreme exceptional circumstances, public institutions, including municipalities, misused this clause to justify fruitless and wasteful expenditure including corruption with the allocation of tenders. A concern is that most SCM policies of municipalities do not specify procurement spent targets, which leaves the municipality to award contracts to established suppliers who often take advantage of the weak procurement management practices and charge double prices. This confirms that deviations from National Treasury regulations and SCM procedures and poor acquisition management practices can leads to irregularities in the municipalities bidding processes.

3.3.4 The compilation of the bid document stage

In the previous chapter of this study, the compilation of bidding documents was briefly outlined. In this chapter the process was discussed in more detail. Khalo and Vyas-Doorgapersad (in van der Waldt *et al.*, 2018:250) explain when the municipality chooses to obtain goods and services through the bidding process, the goods and services must be procured through the municipalities SCM system.

Legodi (2017:19) warns that procurement and SCM corruption takes place through acquisition management and the bidding processes. It takes many forms including bid-rigging, collusive bidding contractors, patronage system, value splitting, cover quoting, manipulation of bids, rigged specifications, excluding of qualified bidders, misrepresentation, conflict of interest, contract manipulation, interference in bidding processes. Bid-rigging takes place when suppliers or companies plot to fix the price for goods and services, purchased through a bidding process. The accounting officer of the municipality must implement the SCM policy and has

to take ensure that proper mechanisms are in place to minimize the likelihood of unfair and irregular acquisition and bidding practices.

Therefore, the bidding processes of the municipality must be in accordance with the municipalities SCM policy and it must be consistent with the *PPPFA* (RSA, 2000) and the National Treasury (RSA, 2011c) and National Treasury (RSA, 2017a). The bidding process consist of various phases. In this regard Regulation 20 of National Treasury (RSA,2005:17-18) the SCM Policy of the municipality and municipal entity must make provision for the specific steps or phases of the competitive bidding, which are discussed below.

3.3.4.1 Step one: Bid specifications and compilation of bid documentation

Fourie and Opperman (2015:375) municipalities must determine the criteria with, which bid documentation regarding competitive bidding process must comply. As such municipalities must compile bidding documentation that clarify specifications, evaluation criteria and procedures that aim at ensuring fair, equitable, transparent, competitive and cost-effective bidding. Leenders, Johnson, Flynn and Fearon (2006:404) observe that clear and accurate specification allows suitable potential bidders to bid. It must be described in writing, drawings, performance requirements, industry standards or trade name.

Leenders *et al.* (2006:404) maintain that developing good, unbiased specification requires time and effort, and at times, there is need for full-time employees that develop specifications. One of the challenges that face municipalities and municipal entities is over- and under-specifying the commodities and services, which open up municipalities to poor-quality service. Leenders *et al.* (2006:404) further aver that compiling, issuing and receiving documentation for bids and quotes should always be the responsibility of SCM. Therefore, bidding documents must clearly state the place, date and time where such documents must be submitted. Late submissions must not be considered and all prices submitted shall remain confidential until after the closing date of submissions. Lastly, quotation or bidding prices must be deemed fixed unless otherwise stated.

SAMDI (RSA, 2004:24) mentions that National Treasury should prescribe threshold values for the procurement of goods and services by way of price quotation or through a competitive bidding process. Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:251) maintain that the municipality must stipulate in the bid documentation the preference point system that must be applied in the adjudication of bids. In this regard the first preference point system is

used for the procurement of goods and services and the second one in the letting and sale of assets, as amended in the *PPPFA* (RSA, 2000) and National Treasury (RSA, 2017a).

In terms of the National Treasury (RSA, 2011c), all companies that want to do business with government of which municipalities cannot be excluded need to obtain a valid BBBEE certificate issued by the South African National Accreditation System (SANAS) and Independent Regulatory Board for Auditors (IRBA) to allow evaluation of bids during acquisition management stage of the SCM. National Treasury (RSA, 2011c) uses the 80/20 preference point system to calculate the points for price in respect of bids or procurement with a rand value below R1 million and 90/10 for procurement above R1 million. The 80 and 90 points go towards price, whereas 20 and 10 go towards BBBEE. However, the Minister of Finance points out in his 2017 budget speech that the older PPR of 2011 (RSA, 2011c) failed to shape the ownership and control of the South African economy (National Treasury, RSA, 2011c).

Hence, the National Treasury enacted the amended National Treasury (RSA, 2017a) which increased the threshold values from R1 million to R50 million with a view to giving smaller companies greater chance to compete in the economy in a meaningful way. As such, municipalities and municipal entities implemented the amended PPR (RSA, 2017a) on 1 July 2017 (National Treasury, RSA, 2017a).

In accordance with the 80/20 preference point system, Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:251) state that the following formula as provided in the amended National Treasury (RSA, 2017a) must be used to calculate the points for price in respect of bids or procurement with a rand value equal to, or above R30 000 and up to R50 million, namely:

$$P_s = 80(1 + P_t - P_h)$$

P_h

- P_s refers to points scored for price or tender under consideration;
- P_t refers to the rand value of offered tender under consideration; and
- P_h refers to the rand value of lowest acceptable tender.

Khalo and Vyas-Doorgapersad in Van der Waldt *et al.* (2018:251) point out that in terms of the National Treasury (RSA, 2017a) a maximum of 20 points may be awarded to the

historically disadvantaged individual (HDI) bidder, or subcontracting with an HDI (National Treasury, RSA, 2017a). The bidder with the highest number of points scored must be selected. In terms of the National Treasury (RSA, 2017a) the 90/20 formula must be used to calculate the points for price in respect of tenders/procurement with a rand value above R50 million:

$$P_s = \frac{90(1+P_t-P_h)}{100}$$

Ph

- P_s refers to points scored for price of tender under consideration;
- P_t refers to the rand value of offered tender consideration; and
- P_h refers to the rand value of lowest acceptable tender.

In the light of the above, a maximum of ten (10) points may be awarded to the HDI bidder or subcontracting with a HDI, and or achieving any of the specified goals as provided in the Regulations 6 and 7 of the amended National Treasury (RSA, 2017a). The tender with the highest number of points scored must be selected. In terms of Regulations 6 and 7 of the National Treasury RSA, 2017a) certain conditions must be met concerning awarding preference points to bidders (National Treasury, RSA, 2017a). Firstly, the preference points may only be awarded to a bidder who has completed and signed the declarations part of the bid documentation. Secondly, the preference points may be awarded to bidders who, on request, substantiate claims that they made with regard to reference. Lastly, preference points stipulated in respect of a bid must include preference points for equity ownership by HDIs (Khalo and Vyas-Doorgapersad in Van der Waldt *et al.*, 2018:251; Vabaza 2015:39-40). Thus, the accounting officer and CFO of the municipality must ensure that the allocations of a bid take place in terms of the National Treasury Regulations 6 and 7 of the amended National Treasury (RSA, 2017a) to ensure a transparent, fair and competitive bidding process and to prevent any irregularities with the bidding process.

3.3.4.2 Step two: Invitation to bid

Matemotsa (2017:28) and Fourie and Opperman (2015:375) provide that depending on the value of a good or services an organ of state of which the municipality and municipal entities cannot be excluded, is required to issue out an invitation to bid to suppliers, to submit written bids for the provision of goods or services in response to the specification advertised. Any invitation to prospective bidders must be by means of public advertisements, published in local

newspapers, the municipalities' website or any other relevant way including advertising in the government tender bulletin. The invitation to bids must be cost effective and it must be in accordance of the constitutional requirements to ensure that the bidding process is fair, equitable, transparent and competitive (Khalo and Vyas-Doorgapersad (2018:252).

Leenders *et al.* (2006:406) argue that instead of wasting funds to advertise on tender bulletins, newspapers and websites, the advertisement may state that potential suppliers wishing to receive request for bids for particular commodity or service should contact the purchasing department of the municipality. However, Leenders *et al.* (2006:406) warn that this kind of invitation does not assist the municipalities that are in dire need of cash injection, as this opens up municipalities and municipal entities to bidders who take chances and end up supplying commodities of poor quality. This fair, equitable, transparent and competitiveness are central to the invitation of competitive bidding process. The accounting officer/CFO of the municipality has to ensure that the fair and competitive bidding process takes place in accordance with National Treasury regulations and the municipalities SCM policy. Therefore, the SCM policy of the municipality must clearly provide the procedure concerning invitation of competitive bids.

3.3.4.3 Step three: Attending to site meetings or briefing sessions

According to Vabaza (2015: 41) as soon as the specifications or terms of reference was developed the bids can be invited to satisfy the principles of fairness. Thereafter, bids must be published in the Government Tender Bulletin or placed in local newspapers. Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:252) explain that as soon as bids have been publicised it may be necessary to indicate the special requirements of the particular bids in the advertisement, including the compulsory site inspection by all bidders. In terms of Regulation 20 of National Treasury (RSA,2005b:17-18) the accounting officer and CFO of the municipality must ensure that SCM managers of the municipality attend site meetings or briefing sessions which are essential for complex commodities, as the advert may not be clear or does not specify certain aspects (Fourie and Opperman 2015:375).

3.3.4.4 Step four: Receiving and opening of bids

According to Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:252) after bids have been advertised, sufficient time must be allowed for bids to be submitted, and bid boxes must be available at the municipality throughout the period until the closing date and time for

receiving of bids. Only bids submitted on time will be proceed to the next phase of the bidding process, and any documentation received after the stipulated time must be disqualified from the bidding process. After the closing date and time, the bid boxes must be collected and opened in public. Where possible, bidders must be invited to the opening of the bid boxes and the names of bidders and, where possible, the bid prices must be announced in public. In this regard, Regulation 20 of National Treasury (RSA,2005b:17-18) further requires that bids must be handled or submitted in response to public invitation. Leenders *et al.* (2006:408) maintain that municipalities must ensure that the proper procedures were followed during the process of receiving the bid from the time the bid closes until after the auditors have satisfied themselves that proper procedures were followed to open bids. The accounting officer of the municipality must ensure that the required procedures are followed when receiving and opening of bids.

3.3.5 Bid evaluation stage

Evaluation of bids must take place in accordance with Regulations 28 of National Treasury (RSA,2005b:22), which provide for the appointment of bid evaluation committees, whereby members of the committee are appointed in writing by the municipal management. In cases there where the municipality lacks the capacity such as human resources to establish a bid evaluation committee the committee of another municipality or municipal entity may be used in accordance with the evaluation criteria as provided in the bid documentation of the municipality (National Treasury, RSA,2005a:48). In this regard Mokotedi (2016:18-19) provides that the bid evaluation committee must consist of an SCM practitioner or a technical expert from the SCM division requiring goods or services.

According to Vabaza (2015:41), the bid evaluation committee is responsible to evaluate bids of suppliers in accordance with the requirements of National Treasury regulations and preferential policies. Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2018:253) are of the opinion that the bid evaluation committee of the municipality should regulate the SCM process on behalf of the management of the municipality in a transparent, cost-effective, fair, impartial, honest and accountable manner in accordance with the accounting officer, the Municipal council directive or delegated powers. Furthermore, the bid evaluation committee of the municipality may authorise, to finalise bids or price quotations according to the provisions of the Council directives or delegated powers.

According to Vabaza (2015:39) and Ambe (2016:23), National Treasury, *PPPFA* (RSA, 2000) and National Treasury (2017a), provide that bids must be evaluated in accordance with a preference point system. The bidding evaluation committee of the municipality must evaluate all bids received and submit a report and recommendation(s) regarding the final award of the bid(s) to the adjudication committee. No Councillor or official should be allowed to do any business with the state. When a bidder declares in the bid documents that he/she is an employee of the service of the South African government, the bid should not be considered (Khalo and Vyas-Doorgapersad in Van der Waldt *et al.*, 2018:253; National Treasury, RSA, 2017a; Ambe, 2016:23). The accounting officer of the municipality has to ensure that the bid evaluation committee evaluate bids in accordance to the requirements of the *PPPFA* (RSA, 2000). Thus, no municipal official or Councillor is allowed to do any business with the government or municipality. Therefore, the bid committee system is a mechanism to ensure that the bid processes takes place in terms of the National Treasury regulations and SCM policy of the municipality.

3.3.6 Bid adjudication committee and the adjudication and awarding of contract stage

According to Mokotedi (2016:19) the bid adjudication committee should comprise at least four senior SCM practitioner and a technical expert. The bid adjudication committee of the municipality and municipal entity should consider the report(s) and recommendation(s) made by the bid evaluation committee. Depending on the delegations granted by the management of the municipality, the adjudication committee could make the final award of the bid, or make a recommendation to the municipality manager to make the final award (Fourie and Opperman, 2015:378; National Treasury, RSA, 2005b:22-23).

Fourie and Opperman (2015:378) and Ambe (2016:23) point out that in terms of National Treasury (RSA, 2005a:48) the municipality manager must appoint the chairperson of the bid adjudication committee. In the absence of the chairperson from a meeting, the members of the committee who are present must elect one of them to preside at the meeting. In cases where the municipality has a lack of capacity to establish the bid-adjudication committee, the municipality may agree to share and utilise the committee structure of another municipality if, and when required. The municipality manager who initiated the requirement will be accountable for the decisions taken. The evaluation committee and bid adjudication committee should consist of different members to promote a transparency review of the evaluations and awarding of bids. Members of the municipal bid evaluation committees may present their

reports to the bid adjudication committee and clarify any uncertainties. Such members, however, should not have any voting power on the adjudication committee. The bid specification, evaluation and adjudication process must be in accordance of Section 217 of the *Constitution (RSA, 1996)*, the *PPPFA (RSA, 2000)* National Treasury (RSA, 2017a) and *BBBEEA (RSA, 2003)*. Other issues to be considered by the bid adjudication committee include administration of contracts; and proper record keeping. Provision must be made for variation orders or contracts refer to additions, omissions, alterations and substitution in terms of quality, quantity and schedule of work. The main effect of the variation of contract is the increase in the project cost, where the solution to avoid variation or expansion of contract would be to have very good and proactive communication between all parties, the client (municipality), contractors (suppliers) and consultants throughout the period of the project, from start to finish (Fourie and Opperman, 2015:378; National Treasury, RSA, 2017a; Ambe, 2016:23).

Vabaza (2015:41) points out that that another stringent requirement of the National Treasury regulations is that awards must be published after the evaluation and adjudication processes. The publication of awards is meant to allow for the disappointed suppliers or services providers to challenge reasons for the award of a contract. One could argue that the publication of awards can be seen as a mechanism to ensure fair, transparent and competitive bidding processes and to allow complaints from the public or other bidders regarding the way in which the municipality managed the bidding process.

3.3.7 Contract administration and management stage

According to Thai (2009:19), after awarding of contract, the project manager or contract administrator issues a notice to proceed that sets the contract administration in motion. The management of the municipality is responsible for ensuring that the parties have complied with all terms and conditions of the contract. Thai (2009:19) further maintains that the management of the municipality should track receipt of the deliverable acceptance, performance of the service, or payment as stipulated in the contract. Khalo and Vyas-Doorgapersad (in Van der Waldt 2018:245 *et al.*, 2018:255) emphasise that each municipality must establish a contracts management unit to manage all contracts arranged by a particular municipality. After the successful bidder has accepted and been appointed, the contracts management unit must ensure that a contract is set up to ensure that a contract is entered into between the municipality and the preferred bidder. Furthermore, the contracts management unit must ensure that before a contract is concluded between the municipality and the preferred bidder, there must be an

agreement between the parties regarding all aspects of the contract. As soon as the contract is concluded, the municipality and the preferred bidder are bound by the contract and both parties must adhere to its terms and conditions (Thai, 2009:19; Khalo and Vyas-Doorgapersad in Van der Waldt *et al.*, 2018:255).

In light of the above one could argue that acquisition management can be seen as one of the core components of SCM to determine the BEE status level. It was also emphasised that as part of acquisition management the municipality has to determine the strategy of how the market should be approached. It was mentioned that the municipality must determine a list of accredited prospective suppliers, the compilation of the bid document and provide the necessary conditions. Only then the bids would be evaluated and the preferred SMME supplier be recommended, where after the required contract documents would be compiled and signed, and contract administration is implemented. Furthermore, it was highlighted that National Treasury should prescribe the threshold values for the procurement of goods and services by way of price quotation or through competitive bidding process. The municipality should make a decision on the threshold values when procuring necessities, hiring, letting and disposing immovable properties.

However, a concern was raised by the Auditor-General that there were municipalities that awarded contracts to bidders who did not submit declarations on whether they were employed by the state or connected to any person employed by the government and the MPAC, in some municipalities that are not functional (AGSA, RSA, 2017:29-31). The above discussion further highlights that the Regulation 20 National Treasury (RSA,2005:17-18) requires from the municipality to specify on the SCM Policy the specific steps, namely compilation of bid documentation, advertising, attending to site meetings or briefing sessions and the competitive bidding. It was further argued that the bid specification, evaluation and adjudication process must be in accordance of Section 217 of the *Constitution* (RSA, 1996), the *PPPFA* (RSA, 2000) and National Treasury (RSA, 2017a) and *BBBEEA* (RSA, 2003) to promote a competitive bidding process that is transparent, fair and equitable. The section that follows focuses on the third management practice of SCM, which is logistics management.

3.4 LOGISTIC MANAGEMENT AS THE THIRD ELEMENT OF SCM

Logistics management practices include setting inventory levels, placing orders, receiving and distributing goods, stores and managing warehouse, placement of orders, managing transport,

managing vendor performance, performing maintenance, and contract administration and management logistic management implies to strategically manage acquisition, the movement and storage of goods, the cost fulfilment of orders and to provide relevant information from the point of departure to the point of consumption (SAMDI RSA, 2004:13, Matolong 2015:26-27; Maleka 2016:53-54; Mokotedi 2016:19). Hugo and Badenhorst-Weiss (2013:155) observe the importance of managing inventory as inventory holding carries interest costs, space costs and risk costs. Handfield *et al.* (2011:609) provide that holding excessive inventory have drawbacks that affect the working capital and the operating budget of the municipality. In terms of the National Treasury (RSA, 2005a:86) municipalities may use the following as a guide to determine when to order stock from the suitable supplier to avoid costs such as interest costs, space costs and risk costs, namely:

- **Setting of stock levels.** The municipality has to take stock levels into account due to delayed lead times. The right maximum and minimum levels and quality of stock need to be kept. A safety margin such as plus minus 20% should be added to the minimum level to cover unforeseen circumstance. It will be cost-effective to employ the principle of just- in- time delivery with the reliable SMME supplier. This arrangement should lower the cost of carrying stock, thereby sparing some cash in the coffers of municipalities. Municipalities are keeping stock levels as required however, municipalities are still challenged with late and non-payment of suppliers from whom orders were placed for replenishment of stock (National Treasury, RSA, 2005a:86; Maleka 2016:54).
- **Placing orders.** Gildenhuis (2018:192) provides that as soon as the optimum ordering quantity has been established, stock must be ordered in accordance with prescribe procedures. An order should be placed either when a pre-determined stock level for inventory items is reached or when a request is received from an end user for an item that is not held in stock.
- **Processing orders.** Orders should be placed for the item from the contract, and where there is no contract, the price quotation or competitive bidding method of ordering should be applied according to delegations (National Treasury, RSA, 2005a:86; Maleka 2016:54).
- **Vendor performance management.** The reliability of the supplier should be monitored in terms of delivery periods, quality and quantity. Therefore, if the

municipality encounters challenges, it should be followed up with the SMME supplier and, if it is a contract item, it should be reported to the municipal management that arranged and signed the contract as well (National Treasury, RSA, 2005a:86).

• **Store and warehouse management.** In terms of National Treasury (RSA, 2005a:93-94), concerning store and warehouse management, the following are required from municipalities:

- Maleka (2016:54) avers that the accounting officer and CFO has to ensure that the required legal and safety regulations are met when goods, are being stored, including flammables, poisons, explosives, ammunition, weapons. Therefore, a functional effective item location system should be utilised. The shelf life of items should be taken into consideration. All goods, items, stock and equipment should be stored in such a manner that stocktaking and handling thereof are facilitated. The municipality has to ensure that the possibility of damage, exposure, deterioration and perishing of goods, items, equipment are limited or reduced.
 - In terms of National Treasury (RSA, 2005a:93-94) an organ of state must keep a proper record of all the applicable goods, assets, or groups of assets. Expediting of orders implies that if the delivery conditions reflected on the order form is not complied with, it should immediately be followed up with the supplier.
 - Receiving of items implies that all goods received should be verified for quality and quantity against the ordering documentation. It is recommended that a receipt voucher be issued for payment purposes (Maleka 2016:54).
- **Issuing and distribution of items.** In terms of National Treasury (RSA, 2005a:94), SCM officials must ensure that a voucher is generated for all goods issued. Therefore, all consumable items should not be recorded after issue. While, non-consumable goods or items should be recorded from receipt to disposal phase. The SCM officials also have to ensure that goods are delivered on time to the end-user (Maleka 2016:55).
- **Stock-taking.** Gildenhuis (2018:194) point out that stock-taking as an important inventory control measure must take place at the end of each financial year. Inventory records is critical for effective stock-taking. Gildenhuis (2018:194) further argues that if inventory records have not been kept, proper stock-taking cannot take place. In this regard National Treasury (RSA, 2005a:94) requires that stock-taking of all

inventory and capital assets shall be conducted at least once a year. Stock-taking entails that current stock correspond with the official records. Any deficiencies should then be accounted for.

- **Management of Transport.** A municipal must ensure that all trips are authorised to reduce transport cost and ensure better service delivery performance (National Treasury, RSA, 2005a:94).

Mokotedi (2016:19) provides that logistic management forms part of SCM that applies, monitors and guarantees and functioning movement of stored goods and services. Apart from proper record keeping and stock-taking municipalities must ensure that general control measures are instituted to limit any irregularities and losses (Gildenhuys, 2018:194). Furthermore, municipalities must have measures in place to ensure that they receive goods at the correct time, at the right price, the right location, and in the right quality and quantity in accordance with National Treasury regulations and procedures. One could argue that the accounting officer and CFO of the municipality has to ensure that logistic management practices, which forms part of effective SCM are management in such a manner that all goods and services, are effectively recorded, stored and controlled. Therefore, effective mechanisms must be in place to ensure that the municipality receive affordable goods at the right time, in the right quality and quantity as well as to ensure measures are in place to prevent any irregularities and losses. Furthermore, SCM officials have to ensure that all aspects of logistics management take place in accordance with National Treasury prescribed procedures and processes to ensure that all items or assets of a municipalities are properly recorded and controlled.

3.5 DISPOSAL MANAGEMENT AS THE FOURTH ELEMENT OF SCM

According to Mokededi (2016:20) and Maleka (2016:56), disposal management is the final process when an organ of state wants to do away or dispose redundant, unserviceable or obsolete movable assets. The accounting officer of the municipality is responsible to appoint an asset disposal committee. In terms of the Free State Provincial Treasury Draft Asset Strategy (RSA, 2015:55) the accounting officer of the municipality must appoint all members and the chairperson of the municipalities disposal committee in writing. The municipality should afford the disposal committee the required attention, similar to the budget committee, specification committee, evaluation committee, adjudication committee and finance

committee. The disposal committee of the municipality is responsible for evaluating the items submitted for disposal; make recommendations on whether items should be disposed of and the committee must determine the appropriate disposal method that needs to be used to dispose the items or goods (Free State Provincial Treasury Draft Asset Strategy RSA, 2015:55).

Fourie and Opperman (2015:124) point out that when the municipality wants to dispose of a capital assets other than one required to perform for basic municipal services, the Municipal council must decide, in a meeting open to the public and on reasonable grounds, that the asset is not needed to provide the minimum level of basic municipal services. Except for the above the Municipal council must consider the market value of the asset and the economic and community value to be received in exchange for such a capital asset. The disposal committee must ensure that all disposal actions are accounted for in the financial records. As soon as an asset is disposed it must be removed from the statement of the municipality's financial position. (Khalo, Vyas-Doorgapersad in Van der Waldt *et al.*, 2018 263-264; The Free State Provincial Treasury Draft Asset Strategy, RSA, 2015:55; Maleka 2016:56).

According to Gildenhuis (2018:194) as part of effective inventory control the municipality will be able to identify during the stock-taking process which of the goods or commodities are without any demand or due to technology obsolescence. These items must be either be destroyed or disposed or should be sold by public action. Fourie and Opperman (2015:371) maintain that in terms of the National Treasury (RSA, 2005a) the municipality must consider the following before any stock or commodity is destroyed or dispose:

- **Obsolescence planning.** Obsolescence planning is important like any other activity of the municipality that should be properly planned and budgeted for to ensure that the assets/commodities are replaced in particular by more technologically advanced items. However, it is important to ensure that after assessment of the asset/commodity, care is taken to determine if the amount that was budgeted for has not been shifted to address pressing issues. Should it be discovered that there are no funds available, management must take a decision not to proceed with replacement of the asset/commodity to avoid late and non-payment of invoices (Khalo and Vyas-Doorgapersad in Van der Waldt *et al.*, 2018:261; Fourie and Opperman, 2015:371).
- **Proper maintenance of a database of redundant material.** Maleka (2016:56) provides that in terms of Section 40(1) of National Treasury (RSA, 2005a) and in

accordance to Section (2)(b) of the *MFMA* (RSA, 2003) before any immovable and movable assets or commodities can be disposed the items must first be valued for proper market-related prices. In the case of disposal of immovable property, asset or commodity the particular district municipalities should ensure that municipalities falling under their jurisdiction are in possession of Council approval, should it not be valuable to the municipality to dispose of the asset or commodity at market-related value. It is the responsibility of the asset manager of the municipality to keep an asset register for all immovable and movable assets. The asset manager also has to ensure that proper control mechanisms are in place for the movement of assets and that a database for redundant assets are maintained to reduce the misuse of assets. The database needs to be updated at least once a year and the data must be based on the records of the stock taking process.

In addition to the above the *MFMA* (RSA, 2003), provides that the disposal committee of the municipality must make all efforts to ensure that the movable assets or commodities are disposed of in accordance to prescribed procedures and the National Treasury Code of Conduct for SCM practitioners (National Treasury, RSA, 2007b). A concern is that most municipalities do not have a disposal committee in place, meaning there will be no declaration of interest forms to be completed to ensure proper application of the Code of Conduct for SCM practitioners (RSA, 2007b).

In light of the above the general management of assets in the majority of the municipalities is a concern. According to the Auditor-General a total of 55% of municipalities do not have a maintenance plan or priority list for renewal and routine maintenance in place. Another concern is that 46% of the municipalities responsible for the delivery of water do not have a maintenance plan for their infrastructure in place while, 22% did not budget for maintenance of their water infrastructure (AGSA, RSA, 2017:21). The Auditor-General further reported that 32% of municipalities do not have effective systems in place to managed and control their assets effectively. Thus, municipalities would only be able to achieve the constitutional objects of local government if they management and maintain their capital and infrastructure capital effectively (AGSA, RSA, 2017:29). One could argue that all aspects of disposal management should take place in accordance with the National Treasury regulations and the prescripts of the *MFMA*, (RSA, 2003). It is required that the accounting officer and CFO of the municipality has to ensure that proper control measures are in place to manage the municipalities movable

and immovable assets. It is of utmost importance that the asset manager or relevant SCM official keep record of all immovable and movable assets. Furthermore, proper control mechanisms and a database for the movement of redundant or obsolete assets must be maintained to reduce the misuse of assets. The section that follows focuses on the fourth element of SCM, namely supplier performance evaluation and certification.

3.6 SUPPLIER PERFORMANCE EVALUATION AND CERTIFICATION

Pikousová and Průša (2013:3) perceive that evaluating performance of suppliers is of strategic importance for any organisation of which the municipality cannot be excluded; hence, previously suppliers were evaluated based on delivery performance, quality and price. Pikousová and Průša (2013:4) go further to explain the criteria buyers used previously to evaluate the performance of suppliers as follows:

- Quality is one of the main criteria in supplier performance. Evaluation depends partly on how set targets are met and how supplier output relates to best practices.
- Delivery is the application of logistic management. Evaluation of delivery includes an assessment of the supplier's ability to meet the requirements for on-time deliveries and ordered quantities. Therefore, the buyer should have an appropriate system in place for effective assessment.
- Price is the first and the last criterion when deciding to award business to a supplier. When evaluating the preferable suppliers, the criteria for price development and the prices of current and future business, the redistribution of current business, and other savings in case of extensions need to be considered.

In light of the above Hugo *et al.* (2002:152-153), Leenders *et al.* (2006:263), and Wisner, Tan and Leong (2012:55-56) point out that suppliers are evaluated in terms of price, quality, on-time delivery and service and providing frequent feedback on supplier performance should assist any organisation to avoid major surprises and to maintain good relationships. Pikousová and Průša (2013:3) aver the criteria that is required when evaluating the performance of suppliers, as stated in Table 7.1 below can be used for maintaining lasting relationship with suppliers.

Table 3.3 Supplier evaluation criteria

Supplier evaluation criteria used by different companies							
Evaluation Criteria	Company A	Company B	Company C	Company D	Company E	Company F	Company G
Company profile	-	-	-	-	-	-	-
Management	Yes	Yes	-	-	-	-	-
Overall situation	Yes	-	Yes	-	-	-	-
Competence	Yes	Yes	-	-	-	-	-
Company culture	-	-	-	-	-	-	Yes
Price	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Production	Yes	-	-	-	-	-	-
Quality	Yes	Yes	Yes	-	Yes	Yes	Yes
Level of claims	Yes	-	Yes	Yes	Yes	-	Yes
Delivery security	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cancelation ratio	-	-	-	Yes	-	-	-
Lead time -	-	-	-	Yes	-	-	-
Price development	-	-	-	Yes	Yes	Yes	Yes

(Source: Adapted from Pikousová and Průša, 2013)

According to Handfield, Monczka and Trent (2002:236), cost structure is key to determine the capability of the suppliers. The evaluation of a supplier's cost structure requires an in-depth understanding of a supplier's total costs. The supplier total cost includes indirect labour costs, material costs, the manufacturing or process-operating costs, and the general overhead costs. By understanding the supplier's cost structure it assists the buyer such as the municipality or a municipal entity to determine how efficiently a supplier can produce an item or commodity. Therefore, a cost analysis should assist the municipality in identifying potential areas of cost improvement. Furthermore, the information can also be used to develop a supplier programme that will assist the municipality or municipal entity to eliminate problems or to improve its supply chain performance (Handfield *et al.*, 2002:236; Wisner *et al.*, 2012:56).

From the above it is clear that implementing an effective supplier certification programme should assist the municipality or municipal entity with reducing the supplier base, building long-term relationships, reducing time spent with critical incoming inspections, improving

delivery and responsiveness, recognising excellence, developing a commitment to continuous improvement and improving overall performance of SCM. Furthermore, cost-control programmes will leave cash in the hands of municipalities, which will create cash reserves to be used for prompt payment of suppliers and catching up on service delivery backlog. In the next section, an overview of SCM practices and tools is provided.

3.7 SUPPLY CHAIN MANAGEMENT TOOLS

According to Mhelembe and Mafini (2019:12) SCM performance have increasingly been recognised as a key factor in improving SCM performance. Bent (2014:57) agrees that over the years, various tools were developed to improve SCM performance. Some of these SCM tools, such as the balanced scorecard, the supply chain operation reference model (SCOR), have proved their success to improve SCM performance.

3.7.1 Balanced Scorecard

According to Hugo, Badenhorst-Weiss, Van Biljon (2004:101) the balanced score card was initially developed as a tool for improving strategic management processes. However, the balanced score card is widely used to measure supply chain performance. The balanced scorecard measured performance including SCM performance from four perspectives, namely the financial perspective; the customer perspective; internal business perspective and the innovative and learning perspective. The financial perspective focuses on measuring of all aspects of finances and cost of the organisation. The customer perspective measures customer satisfaction, which is an important element of SCM. The measuring of the satisfaction of suppliers doing business with a municipality, could be measured by using the balanced score card (Bent 2014:58; Halachmi 2011:3). The internal business perspective deals with measuring whether the internal processes of the organisation take place in accordance with plans. One could argue, that the balanced scorecard could be used to measure, whether the municipality SCM takes place in accordance to National Treasury regulations and the SCM policy of the municipality. Lastly, the innovative and learning perspective focusses on employee development, and new product development cycles.

Bent (2014:58) maintains that one of the advantages of using the balanced scorecard is that it considers both financial and non-financial aspects, that can be used at all levels of the supply chain. Williams (2006:27) agrees that the advantage of the balanced score card is that it can be refined, to become a tool or indicator, to measure the overall performance of the organisation

of which a municipality cannot be excluded. Therefore, the balanced score card, can be seen as a useful tool to measure the overall performance of SCM, and in particular the satisfaction of suppliers doing business with the municipality.

3.7.2 Total Quality Management (TQM)

According to Talib, Rahman and Qureshi (2010:270), total quality management (TQM) is a set of management practices that can be used throughout the organisation to ensure that the organisation meets or exceeds customer satisfaction. The six major TQM practices include top management commitment, customer focus, training and education, continuous improvement of innovation, supplier management and employee involvement. While, SCM focuses on six major aspects including customer relationships, material management, strategic supplier partnerships, information and communication technologies, corporate culture and supplier partnerships. Talib *et al.* (2010: 281) argues from the six major practices for TQM and SCM mentioned above, three practices, namely top management commitment, customer focus and supplier relationships and management, should be used as a bases for improving the performance of ACM practices. Wisner *et al.* (2012:258) agrees that TQM can be used to improve SCM performance of an organisation.

3.7.3 The Elements of Lean Thinking

Many organisations chose to use procurement tools such as “lean thinking” as a way of doing business. The elements of lean thinking incorporate quality assessment and improvement, which focuses on eliminating waste by shrinking inventories, problems with human resource requirements, queues, lead times, quality and timing. The basic goal of this procurement tool is to reduce waste. The intention of this procurement tool is to reduce costs by adding value to a product, services or commodity by eliminating waste, such as rejects. In this way suppliers cooperate with the buyer or customers with the mutual goal of eliminating waste, improving speed and improving quality of the product. In this way suppliers are considered as partners, and close customer relationships are sought.

Wisner *et al.* (2012:279) further state that empowerment in the form of training is of paramount importance to the successful implementation of SCM in municipalities and municipal entities, as required by Regulation 8 of National Treasury (RSA, 2007b:11). Wisner *et al.* (2012:279) further maintain that municipalities could learn from this procurement tool to assure that their SMME’s suppliers perform well by providing services, goods or commodities at lower costs

but of a higher quality. In this manner supplier relationships can be strengthening between the municipality and its suppliers with the aim to promote effective service delivery.

3.7.4 Six Sigma

According to Bent (2014:61), Hugo and Badenhorst-Weiss (2011:71-173), and Wisner *et al.* (2012:279), the Six Sigma is another procurement tool that can be utilised to improve performance, not only of the organisation as a whole, but also of the supply chain. The motivating force of Six Sigma focus on five phase process, which need to follow in a chronological order. Phase one of the process under investigation is to apprehend the view point of suppliers, clients and employees. The second phase pursues to measure current performance. The third phase analyse the reasons and contributors of poor performance and discrepancies. The fourth phase uses the outputs of the previous phases to determine improvements, and the final phase aims to change the current situation (Bent 2014:61).

Wisner *et al.* (2012:289-293) indicate that the statistical tools of Six Sigma include flow diagrams, check sheets, Pareto charts, the cause-and-effect diagram and statistical process controls, which will briefly be explained below:

- **Flow Diagrams or flow-charting.** Flow diagrams or flow-charting, is a management tool, in which all the steps in a particular job or process are written out in the form of a flow diagram. The flow diagram assists managers to identify steps that can be combined or eliminated (Kuratko and Hodgetts 1989:633).
- **Check Sheets.** Wisner *et al.* (2012:290) are of the view that these are tools utilised by organisations including municipalities alike in determining frequencies of challenges.
- **Pareto Charts.** Kuratko and Hodgetts (1989:625) point out that a Pareto chart refers to a vertical bar chart that assists managers to identify which problems are to be solved and in what order. Kuratko and Hodgetts (1989:625) further aver that the basic concept that is used here is the Pareto principle, which holds that 80% of all outcomes can be attributed to 20 percent of all causes.
- **Cause-and-Effect Diagrams.** Kuratko and Hodgetts (1989:626-627) state that cause-and-effect diagrams are often used as a follow-up to the usage of Pareto charts. Hence, the Pareto chart assists managers to identify the problems, while the cause-and-effect

diagram assists managers to explain the reasons and possible causes that could assist managers to formulate suitable solutions.

- **Statistical Process Control.** Wisner *et al.* (2012:289) are of the view that this quality improvement tool allows organisations to monitor process performance visually. Statistical process controls can be used to compare the performance against standards, and take corrective steps rapidly before process variability gets out of control and damage products, service and customer relationships.

Six Sigma or any of the above statistical tools should be utilised by SCM managers to analyse current SCM challenges, with the aim to improve the performance of SCM practices.

In addition, the above statistical tools incorporated in the Six Sigma the following useful procurement tools such as Deming's Contributions, Crosby's Contributions, Juran's Contributions, the Malcolm Baldrige National Quality Award, the ISO 9000 and 14000 Families of Management Standards are outline in the discussion below.

3.7.5 Supply Chain Operation Reference (SCOR) Model

The supply chain operation reference (SCOR) model was develop to evaluate and improve SCM performance. The SCOR model integrated processes such as benchmarking and process measurements. The SCOR model portrays supply chains in five attributes, namely reliability, responsiveness, flexibility, cost and efficiency in the use of assets. These attributes or dimensions are then transformed into well-defined performance parameters or measurements such as delivery performance, cycle-time, cost, order fulfilment lead times, assets and quality measurements. These, parameters allow for performance measurement across the supply chain (Bent 2014:62).

3.7.6 Deming's Contribution

According to Louw and Venter (2011:77), an increasingly wide variety of guidelines and tools can be used to improve the performance of private and public organisations. The Deming cycle is one such tool to improve quality management, including improvement of SCM performance. The contributing characteristics of Deming are based on the premise that managers must manage and are therefore, accountable to ensure quality management. In Table 3.3 below, Deming's 14-Points system is outlined.

Table 3.4 Deming's Fourteen Points for Management

No	Deming's Fourteen Points for Management	
1.	Creating constancy of purpose for improvement of product and service	To define values, mission and vision to provide long-term direction for management and employees. To invest in innovation, training and research.
2.	Adopting the new philosophy	It entails adversarial management-employee relationships and quota work systems no longer work in today's work environment. As such management must work toward cooperative relationships aimed at increasing quality and customer and satisfaction
3.	Ceasing dependence on mass inspection	Inspecting products does not create value or prevent poor quality. Employees must use statistical process control to improve quality
4.	Ending the practice of award winning business based on price tag alone.	Not all purchases should be based on low cost; buyers should develop long-term relationships with a few good suppliers.
5.	Constantly improving the production and service system	It should be noted that significant quality improvement comes from incremental improvements that reduce variation and eliminate common causes.
6.	Instituting training.	It is important that all employees be well informed how the institution functions all employees should receive adequate job training and statistical process control training.
7.	Adopting and instituting leadership.	The management of an institution are also the leaders and they should assist, coach, encourage and provide guidance to employees.
8.	Driving out fear.	Fear causes short-term thinking. A supportive institution will drive out fear of reprisal, failure, change, the unknown and loss of control.
9.	Breaking down barriers between departments.	Teamwork is critical important, cross-functional teams focus workers, break down departmental barriers and allow employees to see the big picture.

No	Deming's Fourteen Points for Management	
10.	Eliminating slogans, exhortations and targets for the workforce.	Institutions should be aware that slogans and motivational programmes are aimed at the wrong people. Slogans do not help workers do a better job and slogans only leads to work frustration and resentment.
11.	Eliminating numerical quotas for employees and managers	Quotas for employees are short-term thinking and cause fear. Numerical goals have no value unless methods are in place that will allow them to be achieved.
12.	Removing barriers that rob people of pride of workmanship	Barriers are performance and merit ratings. Employees have become a commodity. Employees are given boring tasks with no proper tools, and performance is appraised by supervisors who know nothing about the job.
13.	Encouraging education and self-improvement for everyone	All employees should be encouraged to further broaden their skills and improve through continuing education.
14.	Taking action to accomplish the transformation	The management staff of an institution must have the courage to break with tradition and explain to critical mass of people that the changes will involve everyone. Management must speak with one voice

(Source: Wisner *et al.*, 2012:282).

In the light of the above, one could argue that Deming's fourteen points for management could assist municipalities to constantly focus on the improvement of SCM performance. One could argue that the focus on quality could assist municipalities to give effect to the constitutional requirements to promote transparency, equity, quality and competitiveness in all SCM and procurement practices.

3.7.7 Crosby’s Contributions

The four absolutes of quality improvement as provided by Crosby’s is outline in the Table 3.4 below.

Table 3.5 Crosby’s Four Absolutes of Quality

No	Crosby’s Four Absolutes of Quality	
1.	The definition of quality is conformance to requirements	Adopt a do-it-right-the-first-time attitude. Never sell a faulty product to a customer.
2.	The system of quality is prevention	Use SPC as part of the prevention system. Make corrective changes when problems occur. Take preventative action.
3.	The performance standard is zero defects.	Insist on zero defects from suppliers and workers. Education, training and commitment will eliminate defects
4.	The measure of quality is the price of non-conformance	The price of non-conformance is the cost of poor quality. Implementing a prevention programme will eliminate this.

(Source: Wisner *et al.*, 2012:282).

In the light of the above two tables, Wisner *et al.* (2012:282) and Badenhorst-Weiss (2013:294-295) observe that Deming and Crosby contributions, contributed immensely towards the practice of quality improvement of SCM systems by emphasising on the cost of poor quality, which needs continuous improvement and training and the use of statistical control methods. In particular, the Crosby contribution can be used to assess and improve the performance of SCM systems and supplier relationships between the municipality and suppliers.

3.7.8 Juran’s Contribution

Another management tool that can be used to measure SCM and supplier’s quality planning, quality control and quality improvements is the contributions of Juran’s Quality Trilogy. Juran’s Quality Trilogy is outlined in Table 3.5 below.

Table 3.6 Juran’s Quality Trilogy

No	Juran’s Quality Trilogy	
1.	Quality planning	Quality planning requires the process of preparing to meet quality goals. Managers have to identify internal and external customers, determine their needs and develop products that satisfy those needs. Furthermore, managers set short-term and long-term goals, establish priorities and compare results to previous plans.
2.	Quality control	Quality control entails a process of meeting quality goals during operations. Managers have to determine what to control, establish measurements and standards of performance, interpret the difference between the actual measure and the standard and take action if necessary.
3.	Quality improvement	Quality improvement entails that the process of breaking through of unprecedented levels of performance. Show the need for improvement, identify projects for improvement, organise support for the projects, diagnose causes, implement remedies for the causes and provide control to maintain improvements.

(Source: Adapted from Alsyah, 2013)

The above table emphasises the importance of quality planning, quality control and quality improvement, which is meant to meet the municipality’s needs, by reducing the costs of poor quality by first clarifying to suppliers during planning the quality of the goods, services and works municipality need. It assists suppliers to put measures in place when quality is not what was planned for and to improve the performance (Alsyah, 2013:1-5).

3.7.9 The Malcolm Baldrige National Quality Award

Wisner *et al.* (2012:284) observe that the Malcolm Baldrige National Quality Award is awarded to firms or institutions in the United State of America to improve their quality and productivity and in recognition for their quality achievements on determined categories, to establish criteria and guidelines for companies’ independent assessment of their quality improvement efforts and to provide guidance to emerging firms regarding ways to improving quality and productivity. For the purpose of this study, one could argue that in South Africa, lack of quality improvement efforts on the part of municipalities and municipal entities towards SMME suppliers doing business with municipalities and municipal entities is one of the major

impediments to local economy, poverty reduction, job creation and enhanced livelihoods. It is further argued that SCM tools such as the Malcom Baldrige Awards could assist municipalities and municipal entities to improve the quality towards the SMME suppliers' cost effective commodities and services thereby assisting to create reserves for payment of invoices and for maintenance and replacement of assets that have reached their useful lives.

3.7.10 The ISO 9000 and 14000 Families of Management Standards

Louw and Venter (2011:77) and Wisner *et al.* (2012:287) observe that the International Organisation for Standardization ISO 9000 and 14 000 families of management standards are reputable for provision of requirements to any activity of any organisation around the world to establish quality management standards. According to Kuratkho and Hodgetts (1989:620), the ISO 9000 focuses on ten core values and standards, namely customer-driven quality, leadership, continuous improvement, full participation, rapid response, prevention not detection, long-range outlook, management by facts, partnership development and public responsibility to enhance the quality and performance of a private or public organisation.

One could argue that the above ten core values and standards are imperative for the success of any government institution. Hence, it is important to incorporate these standards with a view to address inefficiencies in municipalities SCM and procurement practices, contract management and asset control, particularly in the district municipalities of the Free State Province. The above discussion confirms that SCM performance can be measured by using different SCM tools with the aim to improve SCM and supplier performance.

3.7.11 Control measures

Except for the various SCM tools, *ex ante* control measures and *ex post* oversight as a measure tool can be used to as a procedural control measure.

3.7.11.1 *Ex ante* control measures

According to Soundry (2007:433) the first control measure called *ex ante* means procedural regulations. These procedural regulations include administrative procedures designed to limit the scope of discretion available to the agent whilst carrying out their tasks. Control measures defines the obligations and duties of public agents. Procedural regulations are the procedures agents are required to follow when exercising their delegated powers. The procedural regulations are designed to manage the collection and diffusion of information in a manner

which is easily verified and enforced and specific procedural requirements may be set out in specific legislation. The procedural regulations must make provision for procedural control. Procurement control usually takes the form of substantive obligations and formal rules, such as tendering procedures, publication duties, the definition in advance of the parameters upon which contract-award decisions are to be taken. This assists in reducing the possibilities for incompetent decisions, which otherwise may be due to either apathy or a deliberate abuse of discretion. In addition, procedural control helps to mitigate informational asymmetries between the principal and agent by requiring the latter to disclose information through periodical reports and fill-in forms.

Soundry (2007:437) mentions that the way in which procedural regulation is drafted has important consequences on the degree of autonomy and discretion public officials have in implementing specific policies. Soundry (2007:437) further maintains that legislation that is drafted in the form of standards which requires that public official must act in the best interest of government and how officials should act in different circumstances. Therefore, SCM and procurement legislation may also be based on standards and rules that make provision for procedural control to ensure that SCM officials act in the best interest of the municipality.

3.7.11.2 *Ex post* oversight as a control measure

The *ex post* oversight, is a control measure which may take various forms including monitoring, imposing sanctions or using budgetary restrictions. According to Huber (2000) and (Soundry 2007:437) a variety of methods are available to the legislators concerning exercising of oversight. Hearings, investigations, budget and sanctions are only a few examples of such means. Examples of these includes that legislators or Municipal councils may demand formal or informal reports, or may hold public hearings and investigations which facilitate public debate on certain issues and advance the disclosure of otherwise unavailable information. In certain situations, means may be exercised allowing agencies to be punished, or public officials removed from office. This may also affect the incentives faced by SCM and procurement agents already *ex ante*.

Huber (2000) and Soundry (2007:437) further point out that an alternative mechanism for exercising *ex post* oversight over procurement agents is through the appointment of superior authorities or commissioners which are task with the responsibility to supervising the decisions taken by contracting authorities. These authorities are less vulnerable to the influence of

pressure group and superior authorities are usually equipped with better qualified and more experienced personal and are therefore more capable of auditing the deployment of expenditures made by contracting authorities. The reviews made by superior authorities may be either internal or external. In the case of internal authority, the reviewing authority belongs to the entity responsible for the procurement or the authority that supervises it. In the case external authorities there will be an independent entity, specifically created to review complaints about the SCM and procurement process such as a superior audit office, the national anti-trust authority or other independent supervisory bodies such as an ombudsman. In the context of SCM in local government, the Auditor- General can be seen as an example of ex post oversight independent body, to review the performance of municipalities SCM functions.

In the next discussion the supplier selection, purchasing and suppliers, supplier relationship management, supplier selection were discussed.

3.8 SUPPLIER SELECTION

According to Bent (2014:68-69), suppliers is key to the success of the supply chain. Therefore, the selection of reliable suppliers is crucial to the success of the supply chain. Hugo *et al.* (2002:162) agrees that selecting the right supplier is essential for success of SCM, since it influences the success of the entire procurement management and SCM practices such as demand, acquisition, logistics and disposal management. However, Hugo and Badenhorst-Weiss (2013:290) maintain that doing business with SMME suppliers, in particular those owned by disadvantaged people from local communities, is challenging due to their limited resources. Hugo and Badenhorst-Weiss (2013:290) further provide that these SMME suppliers have limited capital, equipment and human resources, and they are faced with many factors that contribute to late and non-payment of the invoices for the services they render to municipalities. In this regard, municipalities must set measures in place to select the right suppliers.

Wisner *et al.* (2012:55-56) provide that the factors that should be considered while selecting suppliers include the following:

- **Process and product technologies.** Wisner *et al.* (2012:55) argue that the process and product technologies indicate that suppliers should have competent process technologies to produce superior products at a reasonable cost to enhance the purchaser's competitive edge. Bent (2014:70) argues that aspects that needs to be

consider is whether the supplier equipment and technology used has the ability to meet the requirements.

- **Willingness to share technologies and information.** Wisner *et al.* (2012:56) further point out that it is vital that organisations and public institutions seek suppliers that are willing to share their technologies and information. As such, suppliers can assist in new product design and development through early supplier involvement (ESI) to ensure cost-effective design choices, or to develop alternative conceptual solutions, to select the best components and technologies and to assist in a design assessment. By increasing the involvement of the supplier in the design process, the buyer is free to focus more attention on core competencies.
- **Quality levels of the purchased item.** Wisner *et al.* (2012:56) are of the opinion that quality levels of the purchased item should be a very important factor in supplier selection. The reason for this is that the quality of a product or service should be high and consistent, since it can directly affect the quality of the finished goods or service provided.
- **Costing of unit price of the material.** Bent (2014:69) and Wisner *et al.* (2012:56) maintain that the costing of a unit price is not typically the sole criterion in supplier selection. The total cost of ownership must include many other purchase related cost. These include the cost of the material, the payment terms, aspects such as cash discounts, the ordering cost, carrying cost, logistical costs and maintenance costs and other, more qualitative costs, which may not be easy to assess. This total cost analysis demonstrates how other costs besides unit price can affect the purchase decisions. Therefore, the contract must be awarded to the supplier with the lowest total cost.
- **Reliability.** Wisner *et al.* (2012:56) further aver that reliability is of importance such as the supplier's delivery and lead-time need to be reliable, because production may have to be interrupted due to a shortage of material. Other reliability aspects are also important such as the supplier financial stability. If this reliability factor is not present, the supplier may not be able to invest in research and development or stay in business. The supplier's delivery and lead-time need to be reliable; otherwise, production may have to be interrupted due to a shortage of material.

- **Order system and cycle time.** Another aspect that was determined by Wisner *et al.* (2012:56) and Hugo and Badenhorst-Weiss (2013:292) is that the placement of an order with a supplier should be easy, quick and effective. The delivery lead-time should be short, so that small lot sizes can be ordered on a frequent basis to reduce inventory-holding costs.
- **Capacity.** Capacity indicates the suppliers' capacity to fill orders as well as to meet the requirements. Capacity also indicates the suppliers' ability to fill large orders if required (Wisner *et al.*, 2012:56).
- **Communication capability.** Communication capabilities requires that suppliers should have the ability to communicate effectively as well as to facilitate communication between all parties.
- **Location.** Location means the geographical location, which is another important factor in supplier selection, as it has a direct impact on delivery lead-time, transportation and logistical costs. Some organisations require their suppliers to be located within a certain distance from their facilities.
- **Service.** Service also refers to after service care that requires that suppliers must be able to back up their products by providing good services or after service care when required. For example, when product information or warranty service is needed, suppliers must respond on a timely basis (Wisner *et al.*, 2012:56; Hugo and Badenhorst-Weiss, 2013:292).

The above major factors that suppliers' selection should focus on is quality, cost and reliability. First, the efficient and effective provision of services to municipalities and municipal entities is highly dependent on the ability of SMME suppliers to supply commodities and services that are cost effective due to the small budget and yet increasing needs of the communities they serve. Secondly, provision of quality and reliable services to municipalities and municipal entities will contribute to better infrastructure, which brings about significant opportunities for economic growth, poverty reduction, job creation and enhanced socio-economic conditions of communities. However, suppliers doing business with municipalities and municipal entities are registered on the CSD and are not awarded contracts based on the above factors that could have an effect on service delivery targets.

3.9 PURCHASING AND SUPPLIERS

Leenders *et al.* (2006:4) define purchasing as process of buying, learning of the need, locating and selecting a supplier, negotiating price and other pertinent terms, and following up to ensure delivery and payment. Thus purchasing is concerned with the responsibilities such as recognising the need, translating the need into commercially equivalent description, searching for potential suppliers, selecting a suitable source, agreeing on order or contract details, and payment of suppliers. In reality, purchasing exists for important reasons such as searching for potential suppliers, selecting suitable suppliers, developing supplier relationships and payment of suppliers, which can be summarised as supplier management.

Wisner *et al.* (2012:16) argue that, for an organisation or a public institution to be effective, the criteria to select its suitable supplier should be based on costing or pricing of its commodities, quality commodities and delivery performance. In most cases suppliers and in particular SMME suppliers are unable to meet the criteria due to late and non-payment of their invoices, which is the major impediment for the success of these suppliers. In the context of the South African local government, the government enacted laws and regulations such as Sections 65(2)(e) and 99(2)(b) of the *MFMA* (RSA, 2003), which require that reasonable steps be taken to ensure that all suppliers are paid with 30 days of receiving the correct invoice and statements.

In terms of BBBEEA (RSA, 2003), the municipal procurement management are lawfully required to empower all black people economically, including people living in rural areas, people with disabilities, youth and women-owned SMME suppliers through procurement with a view to creating opportunities for small business suppliers to grow the economy and create jobs. Hugo and Badenhorst-Weiss (2013:284) confirm this by providing further that *BBBEEA* (RSA, 2003) be promulgated to ensure that purchasing supports economic empowerment of small businesses. However, empowerment is not happening as expected, due to the large supplier base as evident from CSD which has more than ten thousand (10 000) registered suppliers in the Free State Province.

Handfield *et al.* (2011:11) observe that procurement management and SCM emphasise the importance of SMME's suppliers. Wisner *et al.* (2012:55) assert that firms engaging in SCM emphasise long-term strategic supplier alliances, resulting in a smaller supply base, where supply base refers to the list of suppliers that a firm uses to acquire its commodities, services

and works. Thus, one could argue that municipalities and municipal entities need a smaller supplier base to promote increased procurement sourcing from those SMME's suppliers.

According to Wisner *et al.* (2012:16-17), supplier management requires assisting the organisation or, for the purpose of this study, municipalities and municipal entities' SMME's suppliers to perform in a desired manner. Wisner *et al.* (2012:16-17) further maintain that the key responsibilities of supplier management includes aspects such as supplier evaluation, supplier selection, relationship management, supplier evaluation and certification and supplier development. Handfield *et al.* (2002:24) agree with the above that the most important responsibilities of the purchasing function include aspects such as supplier evaluation, supplier selection, supplier development and maintenance of supply. The list of accredited prospective suppliers to procure goods and service was discussed below.

3.10 A LIST OF ACCREDITED SUPPLIERS TO PROCURE GOODS AND SERVICES

In terms of Section 14 of the National Treasury (RSA, 2005a:14) all municipalities must keep a list of accredited suppliers of goods and service from which to source suppliers. The OCPO introduced the CSD, which consolidates all supplier databases of national, provincial and local governments as well as for State-Owned Enterprises to serve as a single source of supplier information in the government of South Africa. The CSD came into effect 01 September 2015 and some SMMEs suppliers were able to self-register their companies. The CSD interfaces with SARS to verify supplier tax matters and the Companies and Intellectual Property Commission (CIPC) to verify company registration and ownership. As well as with Department of Home Affairs (DHE) to verify identity numbers and with commercial banks to verify banking details. The various departments' Persal can also be used to verify if a supplier is not on the national and provincial department payroll. In this regard municipalities are excluded as they are paid from different payrolls and register of tender defaulters. International suppliers are also allowed to register on the CSD. Municipalities have been expected to source suppliers from the CSD from 1 July 2016 (National Treasury, RSA, 2005a:14; National Treasury, RSA, 2016d:7).

Except for the above the CSD reduces SMMEs' cost of registering their businesses. However, most SMMEs, particularly in the Free State, still face obstacles as they are technologically not ready due to a language barrier, lack of data to access the internet, and residential areas are far from internet cafes and institutions identified to assist and offer support in terms of self-

registration (National Treasury, RSA, 2016d:7). Table 2.1 below indicates the number of suppliers currently registered on the CSD per province and per district municipality.

Table 2.1: Total suppliers registered on the Central Supplier Database per province

CSD Supplier statistics		
Western Cape	19993	7.78%
North West	16829	6.55%
Limpopo	27421	10.67%
Northern Cape	6490	2.53%
Mpumalanga	20883	8.13%
KwaZulu-Natal	46257	18.00%
Gauteng	78264	30.46%
Free State	9963	3.88%
Eastern Cape	30189	11.75%
Total	256289	0.00%

(Source: Free State Provincial Treasury Database, 2016).

From Table 2.1 it is clear that a total of 9 963 (3.88%) of suppliers are registered on the CSD, which is far less than the suppliers of most of the other provinces, except for the Northern Cape Province, with a total of 6 490 (2.33%).

In Table 2.2 below the total number of suppliers registered on the CSD per district is indicated.

Table 2.2: Suppliers registered on CSD per district in the Free State Province

Province	District	Suppliers registered on CSD per district
Free State	Fezile Dabi	1269
Free State	Lejweleputswa	1458
Free State	Mangaung	5086
Free State	Thabo Mofutsanyane	1868
Free State	Xharies	282

(Source: Free State Provincial Treasury Database, 2016)

From Table 2.2 it is noticeable that there are nearly 10 000 Free State-based suppliers on the CSD, of which the statistics are broken down per district municipality. The Free State Province

has a relatively lower number of registered suppliers on CSD compared to other provinces, as indicated in Table 2.1 above.

The suppliers on the CSD are required to indicate whether they want to do business in a particular municipality only or provincially or nationally. The major challenge with suppliers registered on CSD is that both experienced and inexperienced SMMEs suppliers are expected to perform the same way when they are contracted for the same service or works (National Treasury, RSA, 2016c:11).

3.11 SUPPLIER RELATIONSHIP MANAGEMENT

According to Naude *et al.* (2013:2) the South African public sector is not self-sufficient of which municipalities cannot be excluded. The municipality depends on goods, service and commodities, and material supplied by other businesses including SMME's. Therefore, effective supplier relationships between the municipality and the suppliers of goods and services in the SCM and procurement system is vital.

Saunders (1997:255) and Naude *et al.* (2013:2) mention that the key outcome is to create a win-win situation where both parties the municipality and the supplier benefit from the relationship. Wisner *et al.* (2012:55-56) point out that the following factors must be in place to strengthen the supplier relationship, namely; high level of trust; shared vision and objectives, mutual benefits and needs commitment, top management support, change management, information sharing and lines of communication, capabilities, performance methods and continuous improvements, which are discussed below.

- **High levels of trust.** High levels of institutional trust are key between both parties. relationships. Trust enables institutions to share valuable information, devote time and resources to understand each other's business, and achieve results beyond what could have been done individually (Naude *et al.*, 2013:2; Burt, Petcavage, Pinkerton, 2010:68).
- **Shared vision and objectives.** Wisner *et al.* (2012:76) aver that both parties should state the expectations the reasons and objectives of the partnership, and plans for the dissolution of the relationship. As such, payment and performance terms must be stated clearly in the contract. Furthermore, the risk of late payment will be mitigated by clearly stating the objectives of the partnership.

- **Mutual benefits.** Mutual benefits for both parties will not only create an environment conducive to collaboration but opportunities for increased innovation. Thus, when both parties share in the benefits of the partnership, the relationship will be productive and long lasting (Naude *et al.*, 2013:2; Burt, *et al.*, 2010:68).
- **Commitment and top management support.** Commitment must start at the top management level. The level of cooperation and involvement shown by top management is likely to set the tone for joint problem solving further down the line (Wisner *et al.*, 2012:77).
- **Change management.** Wisner *et al.* (2012:77) further state that organisations must avoid distraction from their core business resulting from changes brought about by partnerships with suppliers.
- **Information sharing and open lines of communication.** One of the important aspects in any relationship between an organisation and a supplier is that the confidentiality of sensitive financial, product and process information must be maintained at all times. In this regard the municipality and the supplier has to sign a nondisclosure agreement. Open lines of communication are required to ensure that any conflicting issues must be resolved as soon as possible. Information sharing between both parties concerning specification changes and delivery requirements are a contributing factor to the success of the procurement relationship (Naude *et al.*, 2013:2; Wisner *et al.*, 2012:76-77; Burt, *et al.*, 2010:68).
- **Capabilities and cooperative attitudes.** Before entering into any partnership, it is critically important for a public institution such as the municipality to conduct a thorough investigation of the supplier's capabilities and core competencies to deliver service or goods as required. Thus, suppliers must have the right capabilities to meet cost, quality and deliver requirements (Naude *et al.*, 2013:2; Wisner *et al.*, 2012:77).
- **Performance metrics.** Wisner *et al.* (2012:78) provide that, by evaluating supplier performance, the organisation strives to identify suppliers with the capability to improve supplier communication, as well as to reduce risks and manage the partnership based on an analysis of reported data. The information provided by supplier performance will be used to improve the SCM system of the municipality.

- **Continuous improvement.** Continuous improvements could benefit both the buyer and supplier to ensure that products and services are meeting customer requirements Wisner *et al.* (2012:78).

In light of the above discussion one could argue that before entering into any contract or partnership, it is imperative for the municipality to conduct a thorough investigation of the supplier's capabilities and core competencies. Therefore, it was emphasised in the discussion above that suppliers must have the right capabilities to meet cost, quality and deliver requirements of the contract. It was also emphasised that the risk of late payment will be mitigated by clearly stating the objectives of the partnership between the municipality and a supplier. Another important aspect in any relationship between the municipality and a supplier is confidentiality of sensitive financial information; therefore, the municipality and a supplier have to sign a nondisclosure agreement. The discussion above also emphasises the importance of evaluating suppliers' performance in delivering goods and services to assess whether the requirements are met as well, as to provide opportunities for continuous improvements.

3.12 SUPPLIER DEVELOPMENT

According to Hugo and Van Rooyen (2002:136), top management should lay down policy guidelines that indicate the manner in which the municipality and their entities wish to become involved in the development of SMME suppliers and, if so, in what form and in to what extent. Ways in which the municipality and municipal entity could become involved in the development of suppliers are in terms of ring fencing certain sizes of tenders and certain scales of infrastructure project to ensure that these are focused on assisting and supporting SMME suppliers to sharpen their potential. This will further assist these suppliers to supply economic and cost effective commodities and services, which will translate into prompt payment of invoices, provision of quality infrastructure, regular repairs and maintenance of assets, increase in economic growth, poverty reduction through job creation and enhanced socio-economic conditions of SMME suppliers doing business with municipalities.

In addition to the above, the BER (2016:6) states that the South African government established institutions aimed at the provision of financial and non-financial support to SMMEs such as the Small Enterprise Development Agency (SEDA); Small Enterprise Finance Agency (SEFA), which was merged with the South African Micro-Finance Apex Fund (SAMAF) and Khula Enterprise Finance Limited; and the National Youth Development Agency (NYDA).

The Department of Science and Technology established the Technology and Innovation Agency (TIA) and National Empowerment Fund (Bureau for Economic Research (BER, 2016:6).

The section that follows focuses on the practices and tools available for SCM to assist SMME suppliers.

3.13 OUTSTANDING ACCOUNTS AND PAYMENTS OF SUPPLIER INVOICES

According to Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 20114:240), the municipality can only make a payment to the appropriate supplier after the service or goods have been delivered. The SCM Unit must confirm that the goods and services received are in accordance with the specific contract and on condition that the supplier has supplied the SCM Unit of the municipality with an invoice accompanied by proof that the service has been rendered or that the goods were delivered. In terms of National Treasury (RSA, 2005a:95), and supported by Section 65(2)(e) of the *MFMA* (RSA, 2003), the relevant documentation should be submitted promptly to suppliers for payment to avoid interest charges. In addition to the above, municipalities should follow the following step-by-step approach as required in Circular 49 of National Treasury (RSA, 2009d: 94-95) to ensure prompt payment of invoices, namely:

- **Step one: Confirming scope of project and monitoring.** This should take place prior to the arrangement of receiving the commodities and service. Therefore, the municipality should confirm the scope of the project with the contracted SMME supplier and the municipality should monitor the progress in terms of the contractual obligation.
- **Step two: Receiving and checking invoice upon receipt.** The municipality should review the invoice to ensure it is in accordance to the quotation, the contract, the contract price. The municipality must also ensure that the received goods and services are in good order and provided in terms of the contract by ensuring that all calculations in the invoice are accurate.
- **Step three: Compiling all supporting documentation for payment.** The National Treasury (RSA, 2005d:95) further provides that the municipality have to compile all supporting documentation for payment to ensure that all the details are correct on the invoice, and that the requisition is attached. They should also ensure that the order and

other initiating documentation such as a copy of authorisation for the commodity to be purchased and service to be performed; or copy of contract, or other legal agreement is attached to the invoice.

- **Step four: Authorising account for payment.** The municipality has to ensure that once the authorising account for payment is verified the municipality should make an immediate payment by preparing the supporting voucher and send it for preparation of payment.
- **Step five: Making payment.** The last step entails making the payment. This step entails that once a cheque is signed or other payment means is authorised, the municipality should pay the creditor within 30 days. Furthermore, the payment documents must be filed in a manner that can easily be assessed during an audit (National Treasury, RSA 2005d:95).

Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2014:240-241) and in terms of National Treasury (RSA, 2005a:95) disputes over service, costs or the service performed by a supplier should be referred immediately to the municipality with all the required documentation so that the matter can be taken up with the creditor and the SMME supplier. In this regard National Treasury (RSA, 2005a:95) provides that the municipality should initiate a formal dispute and communicate the matter to the particular supplier or creditor by means of a telephone conversation, or other means. The supplier or the particular creditor needs to explain the cause for the query or concern verbally, and has to follow up that query in writing. Furthermore, if necessary, the parties may consider a meeting to discuss the matter. In cases where parts of an invoice are queried, the municipality should arrange to pay that portion of the amount payable, which is not subject to dispute, and then separately take action to remedy the disputed amount.

According to Khalo and Vyas-Doorgapersad (in Van der Waldt *et al.*, 2014:241) in some instances a court may order the municipality or the particular supplier to fulfil their promise or issue an injunction to the effect that the municipality or the supplier should refrain from doing something that would breach the contract. In the case of fiscal disputes between organs of state, the municipal management may approach the National Treasury for mediation, if this falls within the scope of the *MFMA* (RSA, 2003) and other approaches have failed. In light of the above one could argue that National Treasury implements relevant regulations and SCM

Circulars to assist municipalities with the late and non-payment of SMME suppliers. A concern is that most municipalities have failed to pay creditors and SMME's suppliers on time. The latter is confirmed by the Auditor-General who reported that in the 2016-2017 financial year a total of 51% of municipalities (A total of 121 municipalities) have not paid creditors within 30 days (AGSA, RSA, 2017:29). Auditor- General, further warns that late payments in the Free State Province to suppliers such as Eskom and water boards contributed to most of the fruitless and wasteful expenditure of R324 million (AGSA, RSA, 2017:56-57). For the purpose of this study, one could argue that the late payment to suppliers undermines the legislative requirements provided by the *PPFA* (RSA, 2000), *BBBEEA* (RSA, 2003) and the *CIDBA* (RSA, 2000), which intended to change the lives of SMME suppliers doing business with municipalities.

3.14 REASONS FOR LATE AND NON-PAYMENT TO SUPPLIERS BY MUNICIPALITIES

Section 83(2) of the *MSA* (RSA, 2000) requires of municipalities to advance the interest of persons disadvantaged by unfair discrimination, and care must be taken to ensure that quality and cost are not compromised during provision and receiving of services, goods and works. Section 1(e) of the *BBBEEA* (RSA, 2003) provides that procurement is one of the strategies employed by government for economic empowerment of persons disadvantaged by unfair discrimination such as SMMEs suppliers owned by black women, youth, people with disabilities and people living in rural areas.

According to the National Framework for Local Economic Development (RSA, 2014:26), municipalities and their entities need to boost local economies and promote the socio-economic and economic development of communities through procurement from local SMMEs.

Hugo and Badenhorst-Weiss (2013:290) observe that doing business with SMMEs suppliers, in particular those owned by disadvantaged people from local communities, is challenging due to their limited resources. These SMME suppliers have limited capital, equipment, human resource and are faced with many factors that contribute to the late and non-payment of invoices for the services they render to municipalities.

A report by Semenokane (2017:2) confirms that payment of the Mangaung Metropolitan Municipality to creditors is 78 days, showing a correlation between Hugo and Badenhorst-

Weiss's (2013:290) finding of the escalating late payment by municipalities to suppliers and creditors.

The following factors observed by Hugo and Badenhorst-Weiss (2013:292-294) are experienced by SMME suppliers, contributing to the late and non-payment of invoices:

- **Financial insecurity.** Hugo and Badenhorst-Weiss (2013:292) view financial insecurity as a major impediment for many SMMEs suppliers who delay projects due to inadequate funding. As a result, in most cases, commodities and services are seldom of the agreed quality, are highly priced and not delivered timeously. This contributes to late and non-payment of invoices. BER (2016:7) concurs with Hugo and Badenhorst-Weiss's (2013:292) view by providing further that South African banks and lenders are less likely to lend start-up finance to SMMEs due to their lack of credit history.
- **Lack of expertise.** Hugo and Badenhorst-Weiss (2011:292) and BER (2016:9) cited that the lack of expertise has robbed many SMME suppliers that start out and are not quite fully developed in certain areas such as management, pricing methods and invoicing. This shortage limits their capacity to supply according to specification and this delay payment.
- **Split invoices.** Section 65(2)(e) of the MFMA (RSA, 2003), supported by Circular 49 of National Treasury (RSA 2009d) municipal management have to settle their contractual responsibility as statutory required, but some suppliers, due to little knowledge, split an invoice, hoping to receive part payment even before they deliver as agreed. This delays payment, as municipalities authorises payment whose invoice matches the purchasing order.
- **Supply high-quality standards.** The cost of starting a business is usually high for the small supplier, at the same time being expected to cost commodities accurately as per specification. Supplying the desired high-quality standards and the number of products of the right quantity at the right time are usually difficult for small suppliers.
- **Location of suppliers.** SMME suppliers located in rural areas render goods, services and works at a higher price than suppliers residing in urban areas and these high costs exhaust cash flow and lead to late payment of invoices (BER, 2016:10).

- **Welfare perceptions.** Welfare perception is another impediment to prompt payment of suppliers, as the wrong perception has spread widely among the previously disadvantaged SMME suppliers that they are entitled to government projects. Hugo and Badenhorst-Weiss (2013:293) point out that as a result, suppliers expect municipalities to pay high amounts for goods, services or works, which normally cost three times less. This leads management to delay payment due to inquiry and recurring performance meetings.
- **Risks.** Hugo and Badenhorst-Weiss (2013:293) provide that risk of not meeting dead line, poor product quality and pricing high are the factors that need to be managed whenever the challenge of late payment is to be dealt with.

The above risks occur whenever an order or a contract is awarded to a new SMMEs supplier due to supplier error, partial submission of orders, or tax matters not being in order, resulting in late payment. In terms of the National Treasury (RSA 2016e), municipalities and all government entities are statutorily prohibited from doing business with suppliers whose tax matters are not in order and payment will be deferred until tax matters are cleared.

- **Dependency disorder.** According to Hugo and Badenhorst-Weiss (2013:292-294), dependency disorder is rife among SMMEs suppliers doing business with municipalities due to high levels of unemployment in the communities. However, the challenge is not unique to small businesses, as many small and large businesses are dependent on an enterprise and municipality that procure their products. For the purpose of this study, one could argue that once the municipality takes up a large portion of the supplier's capacity, even as much as 40%, the supplier is captured and become dependent on that municipality for survival. One can further argue that the situation creates an environment conducive to bribing municipal management. When the SMME supplier does not meet the criteria to be awarded a contract, municipal management will be forced to award contract to these suppliers, which is often done without following proper procurement and SCM practices. Once the contract is awarded to this supplier, the result is late payment, since there could be no budget for the goods procured.
- **Poor performance.** Hugo and Badenhorst-Weiss (2013:292-294) contend that poor performance by any supplier may lead to disruption of the entire supply of goods and

services and may cause downtime. If the municipality does not have adequate internal capacity to monitor and evaluate poor performance, this will delay payment until the effects of poor performance are felt in the community and leads to community protests.

In the light of the above one could argue that, according to the *Constitution* (RSA 1996), municipalities are equipped to utilise SCM to play a significant role in the economic and social development of its local communities through awarding contracts to SMMEs suppliers to ensure that the quality of lives of citizens are improved. This is dependent on adherence to Sections 65(2)(e) and 99(2)(b) of the *MFMA* (RSA 2003), which require that reasonable steps be taken to ensure that all suppliers are paid within 30 days of receiving the correct invoice and statements. The section that follows focuses on evaluation of late and non-payment of suppliers or creditors at municipalities within the Free State municipalities over three years.

3.15 AN EVALUATION OF LATE AND NON-PAYMENT TO SUPPLIERS OR CREDITORS OVER THREE YEARS AT MUNICIPALITIES IN THE FREE STATE PROVINCE

As part of the comprehensive descriptive analysis of this study the focus of this section is on the total outstanding amount the municipal management owes their creditors, including suppliers, the period it takes to settle their contractual obligations and which district municipality has the highest outstanding payables, as well as which one takes too long to pay creditors including suppliers. Currently the accounting officers of four district municipalities, Xhariep, Lejweleputswa, Fezile Dabi and Thabo Mofutsanyana, in the Free State Province, and one metropolitan municipality, the Mangaung Metropolitan Municipality (MMM) are responsible for discharging their responsibilities in an effective, efficient and economic manner to avoid late and non-payment of suppliers.

According to the National Treasury Local Government Database for the 2016/17 financial year and the Creditors Age Analysis of June 2016, Free State district municipalities recorded an amount of R6.6 billion, an enormous increase of R2.1 billion, compared to the R4.5 billion stated in the Creditors Age Analysis of June 2015 (National Treasury, RSA, 2016a). This year-on-year growing amount of late payment of creditors, including suppliers, increases interest on areas of creditors accounts, which results in fruitless and wasteful expenditure, leaving little if nothing for municipal management to maintain and replace depreciated assets. Table 3.6 below

shows the Creditors Age Analysis for 2014 extracted from National Treasury Local Government Database of 2014 (National Treasury, RSA, 2014c).

Table 3.7 Creditors Age Analysis – M12 June 2014

Creditors Age Analysis	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Mangaung Metro	262,897	95.8%	2,943	1.1%	674	0.2%	7,835	2.9%	274,348	9.3%
Xhariep District	114	46.9%	28	11.7%	4	1.8%	96	39.7%	243	2.9%
DC 16 Total	310	3.7%	486	5.7%	564	6.7%	7,110	83.9%	8,470	0.3%
Lejweleputswa District	985	0.0%	–	0.0%	–	0.0%	–	0.0%	985	0.1%
DC 18 Total	433,517	27.0%	83,502	5.2%	144,445	9.0%	943,917	58.8%	1,605,381	54.1%
Thabo Mofutsanyana District	1,266	7.6%	–	0.0%	3	0.0%	15,276	92.3%	16,545	3.2%
DC 19 Total	123,276	24.1%	53,944	10.6%	51,503	10.1%	282,050	55.2%	510,773	17.2%
Fezile Dabi	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
DC 20 Total	107,951	19.1%	26,748	4.7%	23,099	4.1%	408,858	72.2%	566,656	19.1%
Total Debt	927,950	31.3%	167,623	5.7%	220,285	7.4%	1,649,771	55.6%	2,965,628	100.0%

(Source: National Treasury, RSA 2014c).

Based on Table 3.7, it took 30 days to pay suppliers R922 m and over 90 days to pay suppliers R1.6 billion, whereas the Creditors Age Analysis of June 2016 indicates that it took 30 days to pay suppliers R1.2 billion and over 90 days to pay suppliers R4 billion. This is a clear indication of the crucial necessity to develop a framework for the management of suppliers as part of municipal procurement management practice in the district municipalities of the Free State to ensure compliance with Section 65(2)(e) of the *MFMA* (RSA, 2003).

Table 3.7 above displays a blurry picture on municipalities' management efficiency regarding compliance with Sections 112 and 65(2)(e)(i) of the *MFMA* (RSA 2003) which clearly indicate a need to enhance the efficiency of SCM as part of procurement management practice in all district municipalities of the Free State. This year-on-year significant escalation of municipalities of the Lejweleputswa district's total value of outstanding creditors which recorded R1,6 billion according to Creditors Age Analysis of June 2014; R2.7 billion in 2015 and R2.2 billion in 2016 translates into high interest charges on none and late payment which further depletes cash reserves to be used for service-delivery backlog.

The municipalities under jurisdiction of the Lejweleputswa district have the highest total amount of outstanding creditors, followed by Thabo Mofutsanyana at R1,7 billion, Fezile Dabi with R1,06 billion, and the Xhariep with R256 million, according to the Creditors Age Analysis of 2016. This worsening situation could be attributed to severe liquidity and cash flow challenges brought about by poor management of suppliers, in particular SMME suppliers. Table 3.7 below displays the Creditors Age Analysis M12 of June 2015, while Table 3.8 displays the Creditors Age Analysis M12 of June 2016.

Table 3.8 Age Analysis M12 June 2015

Creditors Age Analysis	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Mangaung Metro	701,050	85.9%	60,829	7.5%	29,833	3.7%	24,043	2.9%	815,755	12.3%
Xhariep District	1,708	99.2%	–	0.0%	15	0.8%	–	0.0%	1,723	0.7%
DC 16 Total	22,324	8.7%	10,587	4.1%	11,336	4.4%	211,385	82.7%	255,632	3.9%
Lejweleputswa District	569	0.0%	–	0.0%	–	0.0%	–	0.0%	569	0.0%
DC 18 Total	168,041	6.0%	75,863	2.7%	103,579	3.7%	2,437,507	87.5%	2,784,990	42.0%
Thabo Mofutsanyana District	2,013	11.8%	–	0.0%	–	0.0%	15,049	88.2%	17,062	1.0%
DC 19 Total	161,510	9.4%	85,848	5.0%	65,204	3.8%	1,408,160	81.8%	1,720,722	25.9%
Fezile Dabi	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
DC 20 Total	151,249	14.3%	62,139	5.9%	37,162	3.5%	810,512	76.4%	1,061,062	16.0%
Total Debt	1,204,174	18.1%	295,266	4.4%	247,115	3.7%	4,891,607	73.7%	6,638,162	100.0%

(Source: National Treasury, RSA, 2015e).

Table 3.7 above displays the information reported in the National Treasury Local Government Database (RSA, 2015e) of the financial year ended June 2015 whereby Lejweleputswa had the highest amount of outstanding creditors for the period of 61 days at the value of R103 579, followed by Thabo Mofutsanyana at R65 000, and Xhariep at R11 337.00. In the same financial year, it was reported that Lejweleputswa owed suppliers and creditors an amount of R2,4 million, followed by Thabo Mofutsanyana at R1,4 million and Xhariep at R211 38 for the period over 90 days, meaning that members of the bid committees (evaluation and adjudication committees) awarded contracts to suppliers who lacked a previous track record (Hugo and Badenhorst-Weiss, 2011:291). The municipality had to reject the contractors' invoices until the work is completed as per set criteria. Thus, it is important to develop framework for management of suppliers as part of municipal procurement management practice in the district municipalities of the Free State Province.

Table 3.9 Creditors Age Analysis M12 June 2016

Creditors Age Analysis	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Mangaung Metro	240,627	90.8%	8,359	3.2%	5,698	2.1%	10,457	3.9%	265,140	5.8%
Xhariep District	808	20.4%	152	3.9%	79	2.0%	2,919	73.7%	3,959	2.7%
DC 16 Total	8,633	5.8%	7,077	4.8%	7,761	5.3%	124,272	84.1%	147,744	3.2%
Lejweleputswa District	466	0.0%	–	0.0%	–	0.0%	–	0.0%	466	0.0%
DC 18 Total	206,424	9.4%	66,567	3.0%	131,003	5.9%	1,803,005	81.7%	2,206,998	48.4%
Thabo Mofutsanyana District	901	5.4%	–	0.0%	669	4.0%	15,049	90.6%	16,619	1.4%
DC 19 Total	178,835	15.0%	58,657	4.9%	24,885	2.1%	927,717	78.0%	1,190,094	26.1%
Fezile Dabi	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
DC 20 Total	83,575	11.1%	26,923	3.6%	45,672	6.1%	597,402	79.3%	753,571	16.5%
Total Debt	718,094	15.7%	167,583	3.7%	215,018	4.7%	3,462,852	75.9%	4,563,547	100.0%

(Source: National Treasury, RSA, 2016a).

From Table 3.8 above, the Creditors Age Analysis of the four district municipalities for the financial year ended June 2016 clearly indicates the escalating values owed to suppliers and creditors of the Free State district municipalities for the period of 61 up to 90 days and those of over 90 days. The National Treasury Local Government Database (RSA, 2016a) of the financial year ended in June 2016 reported that Lejweleputswa owed suppliers and creditors R131 000, followed by Thabo Mofutsanyana at R24 885 and Xariep at R7 761 for the period from 61–90 days (National Treasury, RSA, 2016a). For the period greater than 90 days, Lejweleputswa was the highest at R1,8 million, followed by Thabo Mofutsanyana at R927 717 and Xariep at R124 277 for the period 61–90 days. President Zuma, in the State of the Nation Address on the 9th of February 2017, indicated that the government had decided to focus amongst others, on unlocking the potential of SMMEs, cooperatives, small business and rural enterprises to re-ignite growth (National Treasury, RSA, 2016a). This condition cannot be reached until there is reduction on the year-on-year increase in the amount owed to suppliers and creditors contracted by municipalities. This has led authors such as Hugo and Badenhorst-Weiss (2012:292) to maintain that the duration taken to settle payment affects the ability of SMME suppliers to meet the basic objective of procurement such as delivery at the right time, to the right place and at the right quality, which specifies the need for a framework for management of suppliers as part of municipal procurement-management practice in the district municipalities of the Free State Province.

3.16 SUMMARY

In this chapter, elements or processes of SCM as outlined in Section 9(a-b) of the SCM National Treasury (RSA, 2005b), namely demand management, acquisition management, logistics management, disposal management and SCM performance were discussed, followed by an in-depth discussion about SCM tools which can be employed to measure and improve SCM and supplier performance in organisations, of which municipalities cannot be excluded. Hence, it is important to incorporate the suggested measuring quality standards, with a view to address inefficiencies in government procurement and SCM practices, contract management and asset control particularly in the district municipalities of the Free State Province.

It was emphasised that in terms of Regulation 2 of National Treasury (RSA, 2005b:6), the SCM policy of the municipality must provide for a fair, equitable, transparent, competitive, cost-effective and effective system of demand management. Demand management plays an essential part in SCM to ensure that all planned goods and services are delivered at the correct time, price and place, and that the quantity and the quality will be of requisite satisfaction and from the right supplier within the confines of *PPPFA* (RSA, 2000), National Treasury (RSA, 2011c) and *BBBEEA* (RSA, 2003). The discussion about demand management further emphasises that in terms of Regulation 38 (National Treasury RSA, 2005a), the SCM policy of the municipality must provide measures for combating of abuse of the SCM system within the municipality. In terms of Regulation 46 of National Treasury (RSA, 2005a) the SCM policy of the municipality must make provision for a Code of Ethical Standards for officials and other role players in the SCM system in order to promote mutual trust and respect, to ensure that all procurement and SCM activities are conducted with integrity, and in a fair and reasonable manner.

The discussion about acquisition management confirmed that acquisition management is one of the core components of SCM to determine the BEE status level. It was emphasised that activities in acquisition management process must be performed in terms of the *PPPFA* (RSA, 2000), the National Treasury (RSA, 2017a) the *BBBEEA* (RSA, 2003) and the *MFMA* (RSA, 2003). The discussion show that the procurement plan of the municipality must be developed from the IDMP by including only items that are most critical for the municipality's IDP. The discussion emphasised that the accounting officer of the municipality is responsible for ensuring the establishment, composition and functioning of bid committees; the selection of bid committee members; the prescribed bidding procedures; the adjudication of bids by the bid committee and the approval of the recommendations of the bid committee. A concern was raised that most municipalities do not have a bid specification committee, to give effect to the obligations to ensure fair, equitable, transparent, competitive, cost-effective and effective bid processes.

In the discussion about logistic management it was emphasised that logistics management practices include setting inventory levels, placing orders, receiving and distributing goods, stores and managing warehouse, expediting orders, managing transport, managing vendor performance, performing maintenance, and contract administration and management. Disposal management as

the final process and management practice in the SCM is also important in ensuring the best value for money over the useful lifespan of the asset/commodity is attained through applying policies intended to enable emergence of SMMEs supplier.

The discussion about suppliers emphasised that suppliers doing business with municipalities and municipal entities must be registered on the CSD. Furthermore, it is an imperative for the municipality to conduct a thorough investigation of the supplier's capabilities and core competencies. It was emphasised that suppliers must have the right capabilities to meet cost, quality and deliver requirements of the contract. The challenge of late payment will be mitigated by clearly stating the objectives of the partnership between the municipality and a supplier. Another important aspect in any relationship between the municipality and a supplier is confidentiality of sensitive financial information; therefore, the municipality and a supplier have to sign a nondisclosure agreement. Cost-control programmes will leave cash in the hands of municipalities, which will create cash reserves to be used for prompt payment of suppliers and catching up on service-delivery backlog. It was also highlighted that the SCM Unit of the municipality must confirm that the goods and service received are in accordance with the specific contract and on the condition that the supplier has supplied the SCM Unit of the municipality with an invoice accompanied by proof that the service has been rendered or that the goods were delivered. In terms of Section 65(2)(e) of the *MFMA* (RSA, 2003), relevant documentation should be submitted promptly for payment of suppliers to avoid interest charges. In addition to the above, the management of the municipality should follow a step-by-step approach as required by Circular 49 of National Treasury (RSA, 2009d) to ensure prompt payment of invoice (National Treasury, RSA, 2009d). It was mentioned that National Treasury implemented many mechanisms such as SCM circulars and regulations to assist municipalities with the late and non-payment to SMME suppliers. However, most municipalities in the Free State Province have failed to pay creditors and SMMEs suppliers on time. A concern was raised in the chapter that 84.9% of municipalities in the Free State are in arrears with their payment of suppliers for a period longer than 90 days. Another concern is that the Mangaung Metropolitan Municipality in the Free State Province owes a total of R146 393 000 to the suppliers of water and a total of R146 393 000 to Eskom.

Other concerns raised by Selebano (2018:2) is that although National Treasury Regulations allow in exceptional circumstances deviations from the procurement and SCM regulations, public institutions misused this clause to justify fruitless and wasteful expenditure, including corruption, with the allocation of tenders (Selebano, 2018:2) One could argue that although deviations from National Treasury Regulations should be allowed only in exceptional circumstances, these deviations have become the norm and public institutions including municipalities used these loopholes to deviate from procurement and SCM frameworks and regulations.

The Free State Province raised concerns as reasons for delayed payment in their 2017 Oversight Report, which include *inter alia* financial insecurity due to their lack of credit history; lack of know-how in pricing methods and invoicing; submitting split invoices hoping to receive part payment even before they deliver as agreed, location of suppliers, causing SMME suppliers that are located in rural areas to charge procured goods, services and works at the higher price resulting in delayed payment from municipalities; suppliers with welfare perceptions expect municipality to pay high amounts for goods, services or works, which normally cost three times less; poor product quality and high pricing; SMME creating dependency disorder on municipal contracts, forcing awards of contract, often without following proper procurement procedures, and SCM practices and poor performance-adequate internal capacity to monitor and evaluate poor performance. Therefore, the development of a framework for the management of suppliers as part of procurement and SCM practices in district municipalities of the Free State Province could serve to address the proper implementation of National Treasury prescripts relating to procurement and SCM and effective management of suppliers. The next chapter focused on municipal financial management with specific emphasis on revenue collection, expenditure and debt management.

CHAPTER FOUR: AN OVERVIEW OF MUNICIPAL FINANCIAL MANAGEMENT WITH SPECIFIC REFERENCE TO EXPENDITURE AND DEBT MANAGEMENT

4.1 INTRODUCTION

SCM is an integral part of municipal financial management. National Treasury (RSA, 2005d) concurs that SCM can be defined as an integral part of municipal financial management to seek international best practices. In the previous chapter it was emphasised that all SCM demands and needs must be linked to the municipalities budget, and expenditure plans. It was further provided in the previous chapter that the non-compliance with the SCM legislation lead to irregular expenditure. Poor revenue collection, expenditure planning and municipal debt contributes to late payment to suppliers. This, it was necessary to provide a theoretical overview of municipal financial management. The purpose of this chapter was to provide an overview of municipal financial management with specific emphasis on revenue collection, expenditure and debt management and to provide the outcome of an analysis of draft budgets and debt management of municipalities of the Free State Province.

This chapter explores the statutory and legislative framework for municipal financial management, followed by a discussion of municipal financial management and municipal budgets. An overview of expenditure management and in particular the unforeseeable and unavoidable expenditure and unauthorised, irregular, or fruitless and wasteful expenditure was provided. Attention was given to the various role players and structures involved in municipal financial management, followed by a discussion of debt management. An analysis of the Free State Municipalities' draft budgets and debt management for the 2015/2016 and 2016/2017 was provided.

4.2 STATUTORY AND LEGISLATIVE FRAMEWORK FOR MUNICIPAL FINANCIAL MANAGEMENT

Different legislative requirements are designed to direct municipalities in managing their finances, budgets, revenue collection, expenditure and debt management. These legislative requirements and provisions on financial matters for municipalities were dealt with in the discussions below.

4.2.1 *Constitution of the Republic of South Africa, 1996*

Section 153(a) of the *Constitution* (RSA, 1996) provides that the municipality must manage and structure its administration, its budgeting and planning processes in such a manner that it gives priority to the basic needs of the community. Section 160 of the *Constitution* (RSA, 1996) sets out the following financial responsibilities of Municipal councils, namely that a Municipal council makes decisions regarding the exercise of all powers and the performance of all functions, including financial functions of the particular municipality.

Moeti (2014:153) and Van der Waldt *et al.* (2018:227) accentuate that Section 195 of the *Constitution* (RSA, 1996) sets out specific principles, which are also related to effective financial management of municipalities, includes the following;

- to promote and maintain a high standard of professional ethics;
- to promote efficient, effective and economic use of scarce resources;
- to ensure that services are provided impartially, fairly and equitably without any bias;
- to respond to people's needs; and
- to encourage the public to participate in policy making.

Sibanda (2017) agrees that the contents of Section 195 of the *Constitution* (RSA, 1996) have vital implications for the promotion of sound financial management practices in all three spheres of government.

According to Mazibuko and Fourie (2013:131), the *Constitution* (RSA, 1996), grants municipalities considerable revenue collection powers. In particular, Section 229 of the *Constitution* (RSA, 1996) makes provision for the municipality to impose rates on property and surcharges on fees for services provided by or on behalf of the municipality or municipal entities. In addition, Section 227 of the *Constitution* (RSA, 1996) provides that the three spheres of government are entitled to an equitable share of nationally raised revenue in order to provide basic services as well as to perform their functions. These allocations from national raised revenue could be either conditionally or unconditionally. Thornhill and Cloete (2014:103) state that the additional

revenue raised by provinces or municipalities may not be deducted from their share of nationally raised revenue or from other allocations made to them by national government. Section 215 of the *Constitution* (RSA, 1996) sets out the requirements to be met by the national, provincial and municipal budgets. Thornhill and Cloete (2014:101) aver that in terms of these constitutional requirements, the budgets and the budgetary processes of the three spheres of government have to ensure effective financial management as well as to promote accountability and transparent government. Van der Waldt *et al.* (2018:227) emphasise that Section 216 of the *Constitution* (RSA, 1996) makes provision for the establishment of National Treasury as well as prescribe measures to promote transparency and expenditure control in all three spheres of government, ensuring the implementation of the recognised accounting practices, the undeviating expenditure classification and the treasury norms and standards. Section 216 of the *Constitution* (RSA, 1996) states that National Treasury must exercise control over municipal finances, while Thornhill and Cloete (2014:102) further maintain that the National Treasury must enforce the compliance with the above measures. The above obligations confirm that sound financial management is a constitutional requirement for all three spheres of government. Therefore, it is a constitutional requirement that municipalities must have effective financial management practices in place to give effect to the above constitutional obligations. In addition to the above constitutional obligations, the following Acts are vital as sources for the principles of sound financial, revenue, expenditure and municipal debt management.

4.2.2 Local Government: *Municipal Systems Act (MSA) 32 of 2000*

The *MSA* (RSA, 2000) give expression to the obligations of the *Constitution* (RSA, 1996) and the policy developed in the *WPLG* (RSA, 1998). Van der Waldt *et al.* (2018:227) point out that in terms of the *MSA* (RSA, 2000), the Municipal council has the right to approve the municipal budget, finance the affairs of the municipality by charging fees for services; rates on property; to impose sub-charges on fees; and as authorised by national legislation a Municipal council may charge other taxes, levies and duties and may raising loans.

According to Mantzaris (2014:82), and Molebela (2016:264), Section 96 of *MSA* (RSA, 2000) provides that the municipality must collect all monies that are due and payable to it, and the

municipality has to adopt, maintain and implement a credit control and its debt collection policy, which is consistent with the rates and tariff policies of the municipality. Chetty (2015:21) asserts that the municipality is empowered by the *MSA* (RSA, 2000) to levy and recover fees, charges or tariffs in respect of any function or service of the municipality, as well as to recover collection charges and interest on any outstanding amount subject to the provisions of the *National Credit Act, 34 of 2005* (RSA, 2004). Section 74(2)(d) of the *MSA*, 2000 states that “tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges.” In terms of Section 75 of the *MSA* (RSA, 2000), municipalities have the power to pass by-laws to give effect to the implementation and enforcement of their tariff policies. While, Section 97(2) of the *MSA* (RSA, 2000) provides that the municipality’s debt collection policy as well as its credit control policy may differentiate between different categories of ratepayers, debtors, users of services, service standards and other matters, as long as the differentiation does not amount to unfair discrimination.

Fourie and Opperman (2015:8) aver that there is a close linkage between the *MSA* (RSA, 2000) and the *MFMA* (RSA, 2003) therefore, these two Acts are complementary and they should be read together. The provisions of the *MFMA* (RSA, 2003) are outlined in the discussion below.

4.2.3 Local Government: *Municipal Finance Management Act (MFMA) 56 of 2003*

Livhuwani (2012:11) states that the *MFMA* (RSA, 2003) is an extension of the *PFMA* (RSA, 1999). According to Bolton (2016:9) and Thornhill and Cloete (2014:109), Parliament promulgated the *MFMA* (RSA, 2003) to regulate financial management and to maximize the municipalities capacity to provide services to their communities. It further determines the responsibilities of municipal officials, and Councillors entrusted with municipal financial management as well as to provide for other financials aspects concerning municipalities.

The *MFMA* (RSA, 2003) further requires that all revenue, expenditure, assets, and liabilities of municipalities and municipal entities are managed in an economically, efficiently and effective way. Chetty (2015:23) points out that the *MFMA* (RSA, 2003) promotes the developmental role of local government. It further proposes a new system to identify the root causes of local government’s financial challenges as well as to empower municipalities to execute their

constitutional mandate. Except for the above, the *MFMA* (RSA, 2003) introduces a performance-based system for measurable outputs that aims to enable municipalities to enhance their capacity to promote effective service delivery as well as to promote effective, efficient and economic management of the financial matters of the municipality.

The object of the *MFMA* (RSA, 2003) as provided in Section 2 of the Act is to promote effective, efficient and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by creating treasury norms and standards and other requirements for the following:

- To ensure transparency, accountability and lines of responsibility in the fiscal and financial matters of municipalities and municipal entities;
- To ensure effective and efficient management of a municipalities revenues, expenditure, assets and liabilities and the handling of their financial matters;
- To ensure budgetary and financial planning as well as to coordinate these processes with the processes of organs of state in other spheres of government;
- To make provision for borrowing processes;
- To make provision for the handling of financial challenges in municipalities;
- To make provision for SCM management; and
- To make provision for other financial matters (Hanabe et al. 2017:394; Moeti 2014:156).

In Chapter two of this study it was emphasised that high levels of outstanding debts of municipalities are fundamental to most municipal challenges. In this regard, Thornhill and Cloete (2014:112) accentuate that the *MFMA* (RSA, 2003) makes provision in Chapter 6 for the administration of municipal debt. Section 64 of the *MFMA* (RSA, 2003) provides that municipalities must ensure that that the fees levied are cost reflective and that these fees are collected and accounted in accordance with the internal control system, as well as the policies and procedures that municipalities are expected to implement related to revenue management. Section 64 of the *MFMA* (RSA, 2003) further provides that municipal managers as the accounting officers

of the municipality must implement effective debt management and control policies as well as effective revenue collection systems. In terms of the *MFMA* (RSA, 2003), a creditor refers to a person to whom money is owed by the municipality. According to Section 65(2)(d)(i) and Section 99(2)(e)(i) of the *MFMA* (RSA, 2003), the accounting officer of the municipality must take all reasonable steps to ensure that all payments by municipalities are made directly to the person to whom the funds are due and that all money owed by the municipalities are paid within 30 days of receiving the relevant invoice or statement.

Thus, the *MFMA* (RSA, 2003) regulates financial management within municipalities; therefore, the *MFMA* (RSA, 2003) provides as indicated above that municipalities must managed its revenue, expenditure, debt collection and liabilities of municipalities and municipal entities in an effective, efficient and economically manner. Furthermore, the *MFMA* (RSA, 2003) sets out the responsibilities of the municipal manager and Municipal councils entrusted with local sphere financial management.

4.2.4 Local Government: *Municipal Property Rates Act (MPRA), 2004 (Act 6 of 2004)*

According to Tshangana (2010:1), and Molobela (2016:264) the *Municipal Property Rates Act* (MPRA), 2004 (hereafter referred to as *MPRA* (RSA, 2004) sets out in Section 2 that municipalities have the power to levy rates on property within their municipal areas. Tshangana (2010:1) further states that district municipalities may levy a property rate only within a district management area. Furthermore, it is expected from municipalities to pass a rates policy within which a transparent and fair system of rating, reductions and rebates can be implemented. The municipality's budget process must include the passing of a resolution concerning the levying of property rates in accordance with the category of property; it also needs to be promulgated in the provincial gazette upon ratification of the budget decisions (Chetty, 2015:23). The *Annual Division of Revenue Act (DoRA)* is discussed below.

4.2.5 *Annual Division of Revenue Act (DoRA)*

According to Moeti (2014:156), the *Division of Revenue Act (DoRA)* is passed before the annual financial year commences to determine the allocation of the state revenue to all government entities including the local sphere of government. Kumar and Reddy (2016:127-128) aver that the DoRA

recognises that municipalities have very limited taxation powers; therefore, DoRA has to make provision for local government to share in the national fiscus. Kumar and Reddy (2016:127) maintain that the *DORA* provides for the financial support of local government through the national fiscus to enable municipalities to fulfil their constitutional mandate. The equitable share is an unconditional grant, while other grants from national government to local government are conditional grants that have to be used for specific purposes.

In terms of Section 214(2) of the *Constitution*, (RSA, 1996), the annual *DoRA* is enacted each year to determine the equitable share to be allocated to municipalities. This Act provides an indication to the municipality of the conditional and unconditional grants that are allocated to the municipality with the aim to supplement their efforts to fulfil their mandate of service delivery to the communities within a municipal area. Chetty (2015:26) argues that the amount allocated in *DoRA* is not only applicable to the current financial year, but is also an indication of the allocations for the next two financial years in accordance with the medium-term expenditure framework (MTEF).

4.2.6 *Municipal Fiscal Powers and Functions Act (MFPFA) Act 12 of 2007*

According to Fourie and Opperman (2015:18-19), the objectives of the *Municipal Fiscal Powers and Functions Act (MFPFA) 2007* (hereafter referred to as *MFPFA*, 2007) are to promote transparency and certainty regarding municipal fiscal powers as well as to oversee the way in which the municipality exercise its fiscal powers and functions. The *MFPFA* (RSA, 2007) further makes provision in accordance with Section 229(3) of the *Constitution* (1996) for an appropriate division of fiscal powers and functions in cases where two municipalities have the same fiscal powers and functions in the same area. Moeti (2014:157) explains that the *MFPFA* (RSA, 2007) regulates the manner by which municipalities exercise their powers to impose surcharges on fees for services provided as required by Section 229(1) of the *Constitution* (1996).

In terms of Section 4 of the *MFPFA* (RSA, 2007), the municipality must lodge an application with the Minister of Finance before it may introduce any new form of property tax. The Minister of Finance will in turn consult with the relevant role player in the Department of Cooperative Governance and Traditional Affairs (CoGTA) and other stakeholders in this regard. In terms of

Section 5 of the *MFPFA* (RSA, 2007), all municipalities must indicate the following aspects when they apply for a new tax base, namely

- the reasons and the purpose of the new tax base;
- the relevant tax rate;
- they have to state if there are any exemptions;
- the tax-collecting authority;
- who is responsible for remitting the tax; and
- the methods to be used as well as the likely costs of enforcing compliance with the requirements of the new tax to be levied as well as any other requirements.

From the above it is clear that all municipalities have to comply with the *MFPFA* (RSA, 2007) in order to enable the municipality to be granted fiscal powers as well as to levy charges for services offered within a municipal service area.

4.2.7 *The White Paper on Local Government, 1998 (WPLG)*

The *White Paper on Local Government (WPLG)* (RSA, 1998:2) indicates that local government should be responsive and accountable, and deliver services that meet community needs in an efficient and equitable manner. Ndebele and Lavhelani (2017:340) and Raga and Nano (2011:139) state that the *WPLG* (RSA, 1998) provides the basis for a new developmental local government system. Developmental local government strives to work with citizens, groups and communities, to create sustainable human settlements that provide for a decent quality of life. The aim of developmental local government is to meet the social, economic and material needs of communities in a sustainable manner. The *WPLG* (RSA, 1998) also introduces IDP as a process through which municipalities can establish a development plan for the short, medium and long-term.

In regard of municipal financial management, Chetty (2015:27-28) avers that the *WPLG* (RSA, 1998:85) states the following policy objectives to introduce the new system of local government financing of which the local government equitable share forms a part namely:

- **Revenue adequacy and certainty.** In order to fulfil the municipality's functions, it is required from all municipalities to have access to adequate sources of revenue, including their own resources or revenue through intergovernmental transfers.
- **Financial sustainability.** Financial sustainability requires that all municipalities must ensure that their budgets are balanced and that their income should cover the municipalities' expenditure.
- **Effective and efficient resource use.** In this regard, the *WPLG* (RSA, 1998:85) requires from all municipalities to use scarce resources in an effective, efficient and economically manner to gain the maximum benefit for its communities.

From the above it is clear that municipalities must use their financial resources in an effective, efficient and economically way as well as balance their income to ensure that it will cover the municipalities' expenditure.

4.2.8 Organised Local Government Act (OLGA), 1997 (Act 52 of 1997)

According to Fourie and Opperman (2015:24), the *Organised Local Government Act (OLGA)* (RSA, 1997) makes provision for the recognition of national and provincial organisations representing the various categories of municipalities. The *OLGA* (RSA, 1997) also makes provision for the procedures by which local government designate representatives may be able to participate in the National Council of Provinces (NCOP) as well as the procedure to be followed to serve on the Finance and Fiscal Commission.

4.2.9 Other relevant legislative provisions related to local government and municipal financial management

Van der Waldt *et al.* (2018:227) and Moeti (2014:156) explain that in terms of the *Intergovernmental Fiscal Relations (Act 97 of 1997)* (RSA, 1997), the three spheres of government have to cooperate with each other on fiscal, budgetary and financial matters by means of prescribing process to determine the equitable share, as well as to allocate nationally raised revenue to all three spheres of government. Van der Waldt *et al.* (2018:227) aver that the Local Government Budget Forum was established when the *Intergovernmental Fiscal Relations Act* (RSA, 1997)

came into effect on 1 January 1998, to consult on any fiscal, financial and budgetary matters which affect the local sphere of government. Any proposed legislation or policy that has financial implications for local government or any matter about municipal financial management such as to monitor the finances of local government must be consulted through the Local Government Budget Forum.

Another important Act is the *Intergovernmental Relations Framework Act 13 of 2005* (RSA, 2005) that provides a framework to promote cooperative governance. The *Intergovernmental Relations Framework Act* (RSA, 2005) set outs the procedure and mechanisms to facilitate the settlement of intergovernmental disputes. Another important Act particular for metropolitan municipalities is the *Housing Act, 107 of 1997* (RSA, 1997), which is applicable to metropolitan municipalities and municipalities with the capacity to deal with the housing function (Chetty 2015:29). The *Promotion of Access to Information Act 2 of 2000* (RSA, 2000) aims to establish and promote a culture of transparency and accountability in the three spheres of government. The *Promotion of Access to Information Act* (RSA, 2000) makes provision for communities to have access to information concerning the affairs of municipalities as well as to allow members of the community to raise their concerns at Municipal council meetings.

The above statutory and legislative frameworks emphasise that municipalities must give effect to the constitutional requirements to management it finances in an efficient, effective and economically manner. It was also emphasised that in terms of Section 64 of the *MFMA* (RSA, 2003), the municipal managers as the accounting officers of the municipality must implement effective debt management, control policies and an effective revenue collection system. In Chapter one of this study it was emphasises that non-compliance to legislative prescripts is one of the key challenges of most municipalities, that leads to irregular expenditure, increase in municipal debt and non or late payment to suppliers. In this regard, Mello (2018:4) warns that continuous increasing of irregular expenditure and poor financial performance of municipalities as provided in the annual Auditor-General reports on the audit outcomes of municipalities is a consequence of non-compliance with laws and regulations. This is in an indication that the implementation of statutory and regulatory prescripts to manage the finances of municipalities remains a concern. The next section provides an overview of municipal financial management.

4.3 AN OVERVIEW OF LOCAL MUNICIPAL FINANCIAL MANAGEMENT AND MUNICIPAL BUDGETS

According to Thornhill and Cloete (2014:109), municipal financial management is directed by statutory and legislative frameworks as discussed above. As emphasised in the previous discussion, the *MFMA* (RSA, 2003) regulates financial management in municipalities. The Act also requires that all revenue and expenditure, procurement and SCM, the assets and liabilities of local government are management in an effective, efficient and economically manner, and it sets out the responsibilities of all stakeholders responsible for financial management. Mazibuko and Fourie (2013:131) state that municipal financial management deals with municipalities budgetary, revenue and expenditure decisions. Municipalities cannot achieve its constitutional obligations to deliver services to the community without sufficient and viable finances. Thus, viable municipal financial management is not possible if municipalities do not have the required funds to cover all its expenditure within a financial year.

Moloto and Lethoko (2018:751) and Landsberg and Graham (2017:173) concur that municipal finances represent the most quarrelsome issue in local government, because municipalities have the obligation to render services, but due to the poor payment for services rendered, municipalities are restrained in their expenditure. Most municipalities struggle to comply with legislative prescripts and current management systems, this lead to irregular expenditure, which contributes to an increase in debt and late payment to suppliers. Mazibuko and Fourie (2013:131) concur that non-compliance with relevant municipal financial management legislation results in an increase in irregular, fruitless and wasteful expenditure, which is not contained in the municipal budget. It contributes to an increase in consumer debt, resulted in non-payment or late payment to suppliers. Furthermore, audit committees fail to function effectively, and monthly and quarterly reports are not submitted as required in *MFMA* (RSA, 2003). Molobela (2016:265) confirms that the Auditor-General also highlighted in the annual reports on the audit outcomes of local government that most municipalities are struggling, to manage their financial, procurement and SCM systems, revenue collection, expenditure and increasing debt as required in the *MFMA* (RSA, 2003) and other legislative and regulatory documents. These issues become sources of dissatisfaction and the public and supplier's confidence in the municipalities financial viability is negatively affected due,

to poor revenue and expenditure and poor financial management in general, by most municipalities. Therefore, the sources of local government funding and revenue collection were outlined below.

4.3.1 Sources of local government funding and revenue collection

In Section 4.2.5 of this chapter, it was mentioned that *DoRA* is passed before the annual financial year commences, to determine the allocation of the state revenue to all government entities, including the local sphere of government. Section 214(2) of the *Constitution* (RSA, 1996) provides that the annual *DoRA* be enacted each year to determine the equitable share to be allocated to municipalities. Thus, the *DoRA* provides an indication to the municipality of the conditional and unconditional grants that are allocated to the municipality with the aim to supplement their efforts to fulfil their mandate of service delivery to the communities. The *DoRA* recognises that municipalities have very limited taxation powers; therefore, it has to make provision through *DoRA* for local government to share in the national fiscus (Kumar and Reddy 2016:127-128).

Chetty (2015:30) states that in terms of Section 220 of the *Constitution* (RSA, 1996), the *Financial and Fiscal Commission (Act 99 of 1997)* (RSA, 1997) is appointed to make a submission annually for a particular financial year. Furthermore, the division of revenue is determined in terms of Section 214(1) of the *Constitution* (RSA, 1996), Section 9 of the *Intergovernmental Fiscal Relations Act* (RSA, 1997), and Section 4(4c) of the *Money Bills Amendment Procedure and Related Matters (Act 9 of 2009)* (RSA, 2009). The commission reviews the local government equitable share formula jointly with CoGTA and the National Treasury to ensure that the funds are equally shared by all spheres of government.

The National Treasury (RSA, 2013d:27) and Kumar and Reddy (2016:129) state that the sources of local government funding come from the following revenue sources:

- **Municipal own revenue sources.** According to Moloto and Lethoko (2018:751), and Chetty (2015:72-73), National Treasury (RSA, 2011a:5), provides that municipalities should largely generate their own revenue to meet the municipalities service delivery objectives. Landsberg and Graham (2017:174-175) and Van der Waldt *et al.* (2018:237)

point out that the primary sources of revenue of municipalities are collected from levying of rates and other taxes and the charging of fees for municipal services and grants. In terms of The *MFPFA* (RSA, 2007) municipalities have the mandate to collect revenues from surcharge on fees for services provided by or on behalf of the municipality. The main bases of revenue required for the operating budget *inter alia* comes from the citizen's payment of their property rates, electricity, water, sanitation and refuse removal. Other secondary sources for the operating budget could come from the payment of traffic fines, rentals, interest earned and disposal of property owned by the municipality. The *MSA* (RSA, 2000) further makes provision for the collection of administrative fees, while Section 230A of the Act makes provision for debt collection.

- **Transfers from national and provincial government.** Section 214 of the *Constitution* (RSA, 1960) makes provision for local government to share in the equitable share of nationally collected revenues through *DoRA*. Section 226(3) and 227(1)(c) of the *Constitution*, 1996 (RSA, 1996) make provision for the transfer of conditional grants from national government to local municipalities. In terms of Section 229(1)(b) of the *Annual Taxation Laws Amendment Act (Act 15 of 2016)* (RSA, 2016) levies from fuel may be shared with metropolitan municipalities.

In terms of Sections 18(1) and (2) of the *MFMA* (RSA, 2003), require the municipal budget to be funded only from the following sources; realistic anticipated revenues to be collected; cash-backed accumulated funds from previous surpluses not committed for other purposes; and borrowed funds, but only for the capital budget referred to in Section 17(2) of the *MFMA* (RSA, 2003).

In order to generate their own revenue, municipalities must sustain an effective tax revenue base to provide services to their communities. It requires that municipalities must establish a system to collect and generate revenue. However, the National Treasury (RSA, 2013c:12) warns that the latter is a concern in that municipalities are becoming more reliant on national grants rather than on collecting revenue in the serviced areas as required by legislation. National Treasury, *MFMA*, Circular 70 (RSA, 2013:12) further cautions that municipal services have significantly regressed and furthermore, it contributes to the public apathy not to pay for services. Molobela (2016:265) point out that most municipalities, and in particular the rural municipalities are struggling to collect

revenue from ratepayers, due to high levels of poverty and unemployment. In this regard, Moloto and Lethoko (2018:751) cautions that revenue collection in municipalities has become a major concern because of increased debt owed to municipalities by rate payers. The poor revenue collection is attributed to a culture of non-payment for services, poor recording systems, and accounts not sent to debtors. This is a confirmation of poor revenue collection in most municipalities of which the municipalities of the Free State Province cannot be excluded.

Another concern is that national and provincial governments expected from municipalities to perform functions that are not allocated to them by the *Constitution* (RSA, 1996) or any other legislation, without any funds allocated to them to executing such functions. The Financial and Fiscal Commission refer to these functions as unfunded mandates, such as museums, housing, health care services, roadworks and library functions assigned by provincial governments to municipalities without any funds. It requires from municipalities to finance these functions from their already limited generated revenue (Moloto and Lethoko 2018:749; Kumar and Reddy 2016:130). One could argue that unfunded mandates further constrain the financial viability of the municipality and it could lead to contributed to irregular expenditure.

This, the lack of effective revenue collection and unfunded mandates comprises the municipalities fiscal position and increases the risk of financial viability to meet all its expenditure needs resulted in irregular expenditure and non-payment or late payment to suppliers. Revenue collection and expenditure is an integral part of municipal operational and capital budgets therefore; a discussion of municipal budgets were provided in the next section.

4.4 MUNICIPAL BUDGETS

In terms of Section 153 of the Constitution (RSA, 1996) the municipality must structure and manage its administration, budgeting and planning processes to prioritise the basic needs of communities and to give effect to developmental local government. The MFMA (RSA, 2003) required that municipalities must ensure that the budget and financial information is reliable, transparent and consistent across municipalities to guide decision-making processes. In this regard, Gildenhuys (2018:117) provides that municipal budgets have three objectives. Firstly, it forms the basis on which the tax policy for the budget period is devised. Secondly, it is the basis

on which financial control is exercised to ensure that the financial policy of the Municipal council is adhered to. Thirdly, a municipal budget can be seen as a financial programme.

According to Thornhill and Cloete (2015:111) the Municipal council of all municipalities must appropriate money through its annual budget for each financial year, commencing on 1 July of one year ending on 30 June of the following year. The above is in line with the prescriptions of Section 16 of the *MFMA* (RSA, 2003) that requires that every municipality must table their budgets before 1 April each year, in compliance with the National Treasury (RSA, 2009e). Section 23 of the *MFMA* (RSA, 2003) further requires Municipal councils to approve their budgets before 30 June each year. The composition of the municipalities' annual budget was outlined below.

4.4.1 Composition of the municipalities' annual budget

The annual budget must be divided into capital and operating budgets in accordance with the National Treasury (RSA, 2009e) and Section 17(2) of the *MFMA* (RSA, 2003) (Landsberg and Graham 2017:173-174; Chetty 2015:70; Craythorne 2006:255).

Hanabe, Taylor and Maclean (2017:401) and Chetty (2015:71) provide that the *MFMA* (RSA, 2003) prescribes that the annual budget of the municipality must be in a prescribed format as prescribed by the *MFMA* (RSA, 2003) and National Treasury (RSA, 2009e). The municipality has to set out in the prescribed format realistic anticipated revenue for the budget year from each revenue source, and set out the appropriate expenditure for the budget year under the different votes of the municipality. Furthermore, municipalities must set out indicative revenue per revenue source and projected expenditure by the vote for the two financial years following the budget years by setting out the estimated revenue and expenditure by vote for the current financial year. In addition, the municipality must set out the actual revenue and the actual expenditure by vote for the financial year preceding the financial statement containing any other information.

In term of *MFMA* (RSA, 2003), and the National Treasury (RSA, 2009e), therefore, the budget templates must consist of the following:

- Schedule A: Municipal budget file;
- Schedule B: Municipal adjustment budget file;

- Schedule C: Municipal monthly budget statement file;
- Schedule D: Municipal entity budget file;
- Schedule E: Municipal entity adjustment budget file; and
- Schedule F: Municipal entity monthly budget statement file (Chetty, 2015:67-68).

Chetty (2015:70-71) mentions that in terms of Section 24(3) of the *MFMA* (RSA, 2003), read together with relevant treasury regulations it requires from all municipalities that the approved annual budget must be submitted within 10 working days after being approved by the Municipal council. If the Municipal council only approves the annual budget on 30 June, the final date for such submission is 14 July.

In the light of the above, Pauw *et al.* (2015:273) maintain that it is also expected from each municipality and each municipal entity to submit the financial and performance management reports to the Auditor-General after the end of each financial year. The municipal council of the municipality must deal with the annual report within nine months after the end of each financial year. In addition to the annual report, the municipality must, in terms of Section 129 of the *MFMA*, (RSA 2003) provide the municipal council with the oversight reports of the municipality and relevant municipal entity within two months after the above reports were tabled for adoption. The oversight report must cover the Municipal council's comments based on the annual report and it should be stated whether the municipal council approved the annual report with or without any reservations, or whether the municipal council rejected the report, or whether the annual report was referred back for revision (Fourie and Opperman, 2015:217; Thornhill and Cloete, 2014:118-119).

The above discussion serves as a confirmation that numerous guidelines and prescripts as contained in *MFMA* (RSA, 2003) and relevant treasury regulations were introduced to modernise the annual budgeting by municipalities. However, Hanabe *et al.* (2017:402) confirm that most municipalities have encountered a number of challenges to implement and sustain credible budgets. It appears that most municipalities do not follow the MTREF and only focus on a single financial year's budgeting process. Most municipalities commence with the budgeting process as

there was no budget approved in the previous year with indicative figures and, they generally ignore the MTERF indicative figures approved in the previous financial year. Other concerns are that the demands as listed in the IDPs of municipalities are not aligned in the municipalities' budget, that leads to irregular expenditure (Matolong 2015:34; Mokotedi 2016:29). Chetty (2015:72) confirms that most municipalities rely on short-term borrowing for sustainability of their operational budgets. The above is a confirmation that most municipalities including the municipalities of the Free State Province are struggle to implement reliable budgets, due to a lock of revenue collection. Another concern is that if the budget of the municipality is not reflective of the IDP, it can be argued that is not a performing budget. The Auditor-General (AGSA, RSA, 2018:10) confirms that during the 2017/2018 financial year all (100%) of the municipalities of the Free State Province had a vulnerable financial position due to non-compliance with legislative provisions and regulations and due to an increase in irregular expenditure. The discussion that follows deals with the municipal operating and capital budgets separately.

4.4.2 Composition of operating budget

According to Gildenhuys (2018:125-126) and Fourie and Opperman (2015:141), municipal budgets are prepared based on accrual accounting principles. It means that transactions are brought to account in the financial year in which they occur regardless whether cash is paid or received in respect of these transactions within a specific financial year. Therefore, an operating budget of the municipality consists of estimates of operating revenue, which will accrue to the municipality. It also includes the operating expenses, which will be encountered by the municipality. Another concern is under- and overspending of operational budgets by municipalities that is an indication that municipalities experiencing challenges to executing programmes within their budgets on time (Mazibuko and Fourie 2013:139-140).

4.4.3 Operating expenditure

In Chapter two of this study the various categories of expenditure as part of SCM was briefly explained. Therefore, a more detail discussion concerning operating expenditure as part of the municipalities budget was discussed in this chapter. Fourie and Opperman (2015:143) define operating expenses as those expensed that relate to expenditure related to the provision of services

or the provision of benefits that are immediately consumed. Gildenhuis (2018:129-130) state that the operating budget must cover the operating expenditure that must be used to cover the expenditure items as listed below:

- Salaries, allowances and wages for municipal staff and allowances such as subsistence and travel.
- General expenses that include items that are used for the general running (current expenditure) of the municipality such as telephone expenses, postal cost, rent of equipment or accommodation, purchasing of bulk water and electricity for resale to the residents.
- Repair and maintenance costs incurred for maintaining the municipalities' infrastructure, including water purification, maintaining infrastructure such as buildings and municipal facilities and for electricity reticulation.
- Capital charges that are used for the repayment of loans to commercial banks and to the Development Bank of South Africa.
- Provision for working capital such as money that may be used to write off bad debt of the arrears of poor people and insolvent companies.
- Operating revenue includes typical sources of revenue needed to meet expenditure items such as property rates (a tax that is charged on properties). The tax application should comply with the *MPRA* (RSA, 2004).
- Service charges entail that monies are collected for services offered by the municipality to communities such as electricity, refuse services are generally regarded as trading activities for municipalities, water and sewerage. Municipalities are required to do monthly meter readings of water and electricity usage and charge for services accordingly (Fourie and Opperman, 2015:144).
- Grants refer to money made available by the national government to provide basic services. These grants are allocated to municipalities to supplement their own income. In addition, the grant allocations must be published in the annual *DoRA* and are allocated by

a formula methodology that also takes into account the revenue needs for the poorest municipalities with a limited tax base.

- Interest and investment income, entails that some municipalities may receive income on investments or from interest on overdue accounts.

The above structured format will allow the Municipal council and members of the communities to interact during public participation processes with the municipality concerning the municipality's operational budget spending and planning activities.

4.4.4. Composition of capital budget

According to Moeti (2014:163), Gildenhuis (2018:137-138) and Fourie and Opperman (2015:163), the municipality may spend money on a capital project only if it has been adopted in the capital budget. Therefore, the capital budget of the municipality is required for the acquisition of fixed assets or for the construction of infrastructure or fixed assets. The capital budget of the municipality is prepared in the form of a list of projects and items of which some of them are brought forward or carried forward to other financial years. The annual capital budget must be associated with the projects and items listed in the approved IDP of the municipality. Thus, before the capital budget is drafted the municipality must align its capital budget with the capital projects and priorities as stated in its IDP. Fourie and Opperman (2015:163) caution that a credible capital budget requires that the municipality has to be realistic about the intended capital expenses and the municipality has to ensure that the capital budget is in line with realistic capital finances.

Mazibuko and Fourie (2013:140) caution that the National Treasury provides that the capital budget performance of most municipalities leaves much to be desired in that aggregate underspending of the adjusted capital budget remains a concern year after year. The latter is an indication that most municipalities experience challenges concerning the planning and implementation of capital projects.

4.4.5 Budgeted capital revenue and capital expenditure

In Chapter two, Section 2.7.1 the capital budget, revenue and expenditure related to SCM was discussed in detail. The focus of this discussion was to pay attention to the requirements to prioritise accelerated public infrastructure development, the current underspending of infrastructure grants and to discuss current infrastructure and capital expenditure challenges in particular the municipalities of the Free State Province. According to Chetty (2015:75), municipalities must ensure efficiency gains, reprioritisation of their capital expenditure relating to core municipal infrastructure, and eradication of non-priority spending. This requirement ensures that the infrastructure needs prioritised by the community and indicated in the municipalities IDP and agreed to by the Municipal council are budgeted for. The National Treasury (RSA, 2009e) states that the main capital expenditure drivers are infrastructure repair, general maintenance, renewal and new capital projects. Therefore, multi-year capital budgeting, as required by the MBRR, will enable Municipal councillors and officials to develop a medium-term plan for spending. It will further assist Councillors and municipal officials to monitor the municipalities spending as well as to identify infrastructure gaps and to plan and budget for capital expenditure accordingly. In addition, National Treasury (RSA, 2013d:3) maintains that municipalities must support faster growth, including accelerated public infrastructure development, new spatial plans for cities, improved public transport, upgrading of informal settlements, and broadening and strengthening of industrial development.

Fourie *et al.* (2011:139) mention that most capital projects are expensive and require large sums of money. In Chapter two of this study, it was emphasised that municipalities received grants to fund most of their capital infrastructure projects, such as the Municipal Infrastructure Grant. Internal sources of revenue for capital expenditure are generated by the municipality itself, for example, from rates and taxes and services such as leasing of buildings and user charges or tariffs such as buses and meters for parking. Except for the Municipal Infrastructure Grant, and other infrastructure grants as listed in Section 2.7.1, Chapter of this study two, other external sources of revenue are generated from outside the municipality. Loans may be obtained from financial institutions, such as the Development Bank of Southern Africa (DBSA). The DBSA, is a major public entity, provides significant amounts to municipalities as loans. The loans provided to

municipalities are intended to support the finances of local authorities by making credit accessible for municipalities and providing technical assistance to municipalities in their use of financial resources. This type of loan charges high interest rates and is not always suitable for rural municipalities, which may find it difficult to repay the loans. A concern is that many municipalities are not credit worthy, which makes it difficult for them to borrow money to fund capital expenditure (Fourie *et al.* 2011:139).

A concern is the continuous underspending of these infrastructure grants by most municipalities. In this regard, the Auditor- General (AGSA,RSA,2018:10) confirms that the increasing underspending of infrastructure grants during 2017/2018 financial year remains a concern. For example, a total of four (4) out of the ten (10) municipalities who received the Public Transport Network Grant underspent it with 30%. Furthermore, municipalities received R14.27 billion to fund capital and infrastructure projects to build and upgrade municipal infrastructure during 2017/2018 financial year. Almost a fifth of the municipalities underspent more than 10% of their infrastructure grants, resulted in a total of R736 million that was not spent. In the Free State Province two municipalities, namely Kopanong and Tokologo used their infrastructure grants to fund operating expenditure due to cash-flow constraints (AGSA, RSA, 2018:31-32).

The Auditor- General (AGSA RSA, 2018:31-32) further reported that a fifth of the 186 infrastructure projects that were audited concerning the maintenance of municipal roads underspent on their projects budgeted of R3 154 million, while SCM non-compliance at a fifth of the projects, resulting in irregular capital expenditure of R297 million. A total of 41% of municipalities did not have a road maintenance plan, and a total of 25% did not have a priority list for maintenance projects.

The biggest infrastructure and maintenance challenges lies with access to water and sanitation, which is one of the constitutional basic rights. The Auditor- General (AGSA RSA, 2018:31-32) confirms that weaknesses in the development and maintenance of the infrastructure required municipalities to provide basic services remain a concern and it is widespread. Other concerns raised by the Auditor- General (AGSA RSA, 2018:32) is the lack of accountability related to municipal infrastructure. The construction of the Oranjeville sports complex of the Metsimaholo

local municipality, Free State Province is an example of the deteriorating accountability on municipal infrastructure. A total of 21.9 million was budgeted for the construction of the Oranjeville sports complex. The Metsimaholo local municipality spent a total of R21.7 million on this project, which is 99% of the budget amount. However, it could not be confirmed that services were actually delivered, except for a fence no buildings structures were visible during a site visit. This results in delays of project completion and non-compliance with relevant SCM and infrastructure development legislation. In the previous financial year, 2016/2017 the Auditor-General (AGSA RSA, 2017:56) reported that there were delays in various infrastructure projects of the Mangaung Metropolitan Municipality, while significant amounts had been spent on planning and feasibility studies. Since 2012 the municipality spent a total of R141 million on planning and establishing cost on a new township development area. No further progress had been made on this project and approval for the township establishment had not been obtained from the relevant planning tribunal. The Auditor-General (RSA, 2018:10) further confirms in the 2017/2018 audit report all (100%) municipalities in the Free State Province show significant deficiencies in infrastructure projects.

The above is an indication of the many weaknesses that appears across all municipalities including the municipalities of the Free State Province to deliver on infrastructure maintenance and projects. It is an indication of weaknesses in budget management of municipalities, completion of infrastructure projects, lack of accountability for municipal infrastructure and non-compliance with relevant legislation and regulations. The key role players and structures in municipal financial management were outlined below.

4.5 KEY ROLE PLAYERS AND STRUCTURES IN MUNICIPAL FINANCIAL MANAGEMENT

In Chapter two the key role players in procurement and SCM of the three spheres of government were outlined. Although, SCM forms an integral part of municipal financial management this section focuses on the key role players and structures in municipal financial management. These role players are internal and operate at administrative level and the external ones are outside the municipal office. The success of the implementation of the *MFMA* (RSA, 2003) depends entirely

on the role players some of which are mentioned below. Similarly, failure to implement it is incumbent upon the commitment of these role players. This means that the *MFMA* (RSA, 2003) can only be implemented effectively if the role players are determined to discharge their duties as required by the provisions of this Act.

4.5.1 Financial governance role players

The *MFMA* (RSA, 2003) has changed, improved and fine-tuned the roles of appointed and elected officials. The *MFMA* (RSA, 2003) has put in place a sound financial governance framework by clarifying and separating the roles and responsibilities of the municipal council, the mayor and officials. Mayors are the political heads of municipalities while municipal managers are the administrative heads and accounting officers of councils. Speakers are in charge of the conduct of all councillors in the municipal council, including the conduct of the political head of council, the mayor. The *MFMA* (2003) further requires from councillors to operate at a political and at policy level while appointed municipal officials are required to implement the policies at an administrative level.

4.5.1.1 Municipal Councillors

According to Van der Waldt *et al.* (2014:213), and Gildenhuys (2018:114), municipal councillors play an important role in the process of approving the municipal budget. One of the mechanisms to ensure that plans are turning into action is the municipal budget and the IDP. As such, the municipal council must approve credible budgets that set out realistic revenue and expenditure estimates. Except for the revenue and expenditure estimates, the municipal council must budget for the maintenance and replacement of operating equipment to ensure sustainable service delivery. Municipal councillors must also scrutinise and monitor performance of the budget and SDBIP through quarterly performance reports presented to the municipal council by the mayor.

Chapter 5 of the *Municipal Structures Act* (RSA, 1998) sets out the financial executive obligations of the Municipal council, namely:

- To ensure that the allocated budget inputs relate to the priorities as set out in the municipal IDP;

- To approve the budget of the municipality
- To provide oversight over tabling of the annual budget, approval of the SDBIP or the signing of annual performance agreements; and
- To adopt and annually review of the municipality's SCM Policy (SALGA 2011b:14).

In the light of the above, it is clear that the municipal council has an important role to fulfil concerning municipal and financial matters, which include the responsibility to approve and implement the municipal budget in an effective, efficient and economic manner.

4.5.1.2 Mayor

According to Van der Waldt *et al.* (2014:215), and Fourie and Opperman (2015:175), Section 52 of the *MFMA* (RSA, 2003) provides the role of the mayor in terms of budget process as follows:

- Provision of general political guidance regarding the financial and fiscal affairs of the municipality;
- Monitoring and overseeing the responsibilities assigned to the municipal manager and the CFO, but should not interfere with their activities;
- Ensuring that the municipality performs within the limits of its budget;
- Submitting a report to the council within 30 days of the end of each quarter on the implementation of the budget and the financial state of the municipality;
- Ensuring budgetary control and early identification of financial problems; and
- Reporting to the provincial executive if reasons for provincial intervention exist, such as when the Council fails to pass the budget.

SALGA (RSA, 2011b:25) provides that in terms of Section 53(1)(a) of the *MFMA* (RSA, 2003), the mayor must provide political guidance over the budget process, and the priorities that must guide the budgetary process. Van der Waldt *et al.* (2018:231) maintain that mayors have to exercise these duties in consultation with the executive committee of the municipality. In the case of municipalities without mayors the municipal council must elect a councillor to exercise these

duties as provided in Section 52 of the *MFMA* (RSA, 2003). The mayor must study all reports and if he or she has any suspicions or concerns over financial accountability, transparency or other issues, he or she must alert the municipal council and relevant MEC about any concerns as well as to initiate any remedial steps and reducing spending (National Treasury, RSA, 2008a:122; Fourie and Opperman 2015:175). Therefore, the mayor is responsible for the political oversight over the financial affairs of the municipality.

4.5.1.3 Municipal Manager

According to Pauw *et al.* (2015:256) and Fourie and Opperman (2015:51-52), the municipal manager is accountable for the municipality under his or her jurisdiction and therefore the municipal manager must provide guidance to the political structures, political office-bearers of the municipality about his or her administrative and financial responsibilities. In terms of Section 65(2)(d)(i) and Section 99(2)(e)(i) of the *MFMA* (2003), the accounting officer of the municipality must take all reasonable steps to ensure that payments made by the municipality are made directly to the person to whom the funds are due and that all money owed by the municipality is paid within 30 days after receiving the relevant invoice or statement. In terms of National Treasury (RSA, 2008a:16-17), Sections 62-65 of the *MFMA* (RSA, 2003) provides that the municipal manager as the accounting officer is responsible for the management of the expenditure of the municipality. According to Gildenhuis (2018:59-61) the chief executive officer or the accounting officer who are in general the municipal manager must take all reasonable steps to ensure the following:

- That the municipality implements and maintains an effective system of expenditure control such as procedures for the approval, authorisation, withdrawal and payment of funds;
- That the municipality implements and maintains a management, accountability and information system that takes into account expenditure when it is incurred, accounts for creditors and payments made by municipality;
- That the municipality implements and maintains a system of internal control in respect of the creditors and payments;

- That the municipality ensures that all money owed to the municipality to be paid within 30 days of receiving relevant invoice or statement; these payments must be made directly at the municipality or electronically; that the municipality complies with tax, levy, and other duties; that any dispute concerning payments is to be dealt with in terms of the relevant legislation;
- That the municipalities SCM policy is implemented in such a way that is fair, equitable, transparent, competitive and cost effective; and
- That all financial accounts are closed and reconciled with their records at the end of the month. Sections 62-64 of the *MFMA* (2003 stipulates that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards and that accounts for municipal tax and charges for municipal services are prepared on a monthly basis (National Treasury, RSA, 2008a:16-17).

In the light of the above, Thornhill and Cloete (2014:114) maintain that the municipal manager of the municipality cannot exercise all the financial management duties assigned to him or her in terms of the *MFMA* (RSA, 2003). Therefore, provision is made for the municipal manager to develop a system of delegation to relevant municipal officials as long as it is not delegate to any political structure. Furthermore, a municipal manager cannot delegate his or her accountability function. Thus, the municipal manager as the accounting officer is held answerable to the Auditor-General for all the financial affairs of the municipality.

4.5.1.4 Chief Financial Officer (CFO)

According to Kuye *et al.* (2002: 114) and Fourie and Opperman (2015:77), in terms of Section 81 of the *MFMA* (RSA, 2003), the Chief Financial Officer (CFO) is the head and in charge of the Budget and Treasury Office (BTO) of the municipality. He is responsible for

- advising the municipal manager concerning the assigned powers and duties;
- assisting the municipal manager concerning the administration of the municipality's bank accounts;

- assisting the municipal manager with the preparation and implementation of the municipality's budget; and
- providing advice to senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of the *MFMA* (RSA, 2003) or delegated to them by the municipal manager.

In terms of Section 82 of the *MFMA* (RSA, 2003), the CFO may sub-delegate some of his or her advisory responsibilities as well as some technical responsibilities to either an official in the BTO or to any other municipal official of the municipality, or a person contracted by the municipality for the work of the BTO with the approval of the municipal manager.

According to the National Treasury (RSA, 2008b:123), the CFO is also required to oversee and take responsibility for the performance of the following functions: financial management of the municipality; review of financial statements and reports; budgeting; accounting; analysis of financial statements; financial reporting; cash management; debt management; and SCM.

4.5.1.5 Senior managers and other officials

According to Kuye *et al.* (2002:112-113) and in terms of Section 78 of the *MFMA* (RSA, 2003) senior management and other municipal officials must also fulfil a role managing the finances of the municipality. This includes the following:

- to apply and adhere to the financial management and internal control system of the municipality;
- to utilise the financial and other resources of the municipality in an economically, effective, efficient and transparent way;
- to prevent and avoid any unauthorised, irregular or fruitless and wasteful expenditure and any other losses;
- to collect all the revenue owed to the municipality;
- to manage the assets and liabilities of the municipality in an effective way and to ensure that assets are properly safeguarded and maintained in an effective manner; and

- to submit all the information required by the municipal manager.

It is necessary that senior managers and other officials with financial management responsibilities exercise the above-mentioned responsibilities subject to the directives received from the municipal manager.

4.5.1.6 External role players

There are important external role players whose roles and responsibilities contribute immensely to municipal financial management and the *MFMA* (RSA, 2003) establishes clear lines of authority between the MEC for Finance, the MEC for Local Government, the Auditor-General and the Financial and Fiscal Commission. This will briefly be outlined below.

4.5.1.6.1 Member of Executive Council (MEC): Finance

In terms of Section 139 of the *Constitution* (RSA, 1996), the MEC for Finance has to fulfil a supervisory role over the financial affairs of municipalities. It is against the above statutory requirement that Section 71(7) of the *MFMA* (RSA, 2003) requires that the MEC for Finance as the head of provincial treasury must, within 30 days after the end of each quarter, publish a consolidated statement on the state of municipalities' budgets per municipality and per municipal entity. The consolidated statement to the provincial legislature no later than one month and 15 days after the end of each quarter.

In terms of Section 26(3) of the *MFMA* (RSA, 2003), the MEC for Finance must approve any revised time frames for the approval of the budget of a newly elected Council in those cases where the provincial executive has intervened in the municipality in terms of Section 139 of the *Constitution* (RSA, 1996), and must have dissolved the previous Municipal council. Before the budget of such a Council is approved, the MEC for Finance must approve any funds that the municipality may consider withdrawing from its bank accounts. In cases where there is non-compliance by the municipality with the tabling or approval of the annual budget or compulsory consultation processes, the MEC for Finance may, in terms of Section 27(2) of the *MFMA* (RSA, 2003), extend the time limit or deadline on receipt of an application from the Mayor of the municipality indicating valid reasons for such an extension. In addition, Section 146(1)(c) of the

MFMA (RSA, 2003) provides that the municipality must implement an approved financial recovery plan and the municipality must report monthly to the MEC for Finance in the province on the implementation of the plan.

4.5.1.6.2 Member of Executive Committee (MEC): Local Government

The MEC for Local Government plays a very important role in terms of the management of financial affairs of municipalities. In terms of Section 38(2) of the *MFMA* (RSA, 2003), before the National Treasury stops the transfer of funds to the municipality in terms of Subsection (1)(a) or (b), it must give the municipality an opportunity to submit written representations with regard to the proposed stopping of funds, inform the MEC for local government in the province, and consult the Cabinet member responsible for the national department making the transfer.

4.5.1.6.3 National Treasury

According to Van der Waldt *et al.* (2014:213) and Kuye *et al.* (2002:115-116), the National Treasury is established in terms of the *PFMA* (RSA, 1999). The Minister of Finance is the head of treasury, which must do the following:

- To promote the fiscal policy framework of national government;
- To coordinate the macroeconomic policy of national government;
- To coordinate the intergovernmental financial and fiscal relations;
- To manage the budget preparation process;
- To exercise control over the implementation of the annual national budget, and any adjustments budgets;
- To facilitate the implementation of the annual *DoRA*;
- To monitor the implementation of provincial budgets; and
- To promote and enforce transparency and effective management in respect of revenue, expenditure, asset and liabilities of departments, public entities and constitutional institutions.

4.5.1.6.4 Auditor-General

According to Pauw *et al.* (2015:168) the Auditor-General is established in terms of Section 181(5) of the *Constitution* (RSA, 1996) and is expected to uphold constitutional principles enshrined in the *Constitution* (RSA, 1996). Gildenhuys (2018:290) avers that the Auditor-General is required to audit and report on the financial statements and financial management of all municipalities. According to Van der Waldt *et al.* (2014:214), the Auditor-General may audit and report on the accounts, financial statements and financial management of any institution funded from the National Revenue Fund, or a provincial revenue fund, or by the municipality or any institution authorised by law to receive money for a public purpose. The Auditor-General is appointed by, and accountable to Parliament. After examining the books of accounts of municipalities, the Auditor-General submits reports to relevant council. The Municipal Public Accounts Committee (MPAC) is the ultimate arbiter of the financial performance of the municipal management (Institute for Public Finance and Auditing (IPFA), 2004:15).

4.5.1.6.5 Financial and Fiscal Commission

According to Van der Waldt *et al.* (2014:214), the Financial and Fiscal Commission (FFC) is an advisory body established in terms of the Financial and Fiscal Commission, 1997. Pauw *et al.* (2015:79) further provide that FFC is the body established to advise Parliament, Provincial legislatures and Budget Council on intergovernmental financial matters such as equitable division of nationally raised revenue amongst the different spheres of government. Van der Waldt *et al.* (2014:214) further mention that the recommendations are made to the Minister of Finance at least 10 month's prior the start of the financial year on the issue of equitable division of revenue amongst the national, provincial and municipalities.

4.5.1.6.6 Community members

The local residents of the municipality are important role players in deciding the levels of municipal expenditure. This is particularly true in a situation where the municipality spends money for service delivery, for example, the building of RDP houses, healthcare centres, sports facilities or any other facilities. The community plays a crucial part in how finances, including budgeting,

expenditure, reporting and monitoring should work in order to achieve the social and economic development of their areas within a transparent and accountable democratic culture. In terms of Section 74 of the *Municipal Structures Act* (RSA, 1998), ward committees may make any recommendations on any matter affecting its ward to the ward councillor, municipal council, the executive committee and the executive mayor. The section that follows focuses on expenditure management as is key in terms of management of financial affairs of the municipalities.

4.6 AN OVERVIEW OF EXPENDITURE MANAGEMENT

Operating and capital expenditure was discussed in Section 4.4.3 and 4.4.5 of this chapter. Attention was given in this discussion to unforeseeable and unavoidable expenditure and unauthorised, irregular, or fruitless and wasteful expenditure. In this, section an overview of expenditure management was provided.

Pauw *et al.* (2015:286) emphasise that in terms of Section 29 of the *MFMA* (RSA, 2003) and the National Treasury (RSA, 2008b:13), the mayor of the municipality may in the case of emergency and other exceptional circumstances authorise the unforeseeable and unavoidable expenditure for which provision was not made in the budget. These expenditures may be authorised, provided the mayor is satisfied that they are in line with prescribed frameworks and that these expenditures do not exceed a prescribed percentage of the approved annual budget. Furthermore, unforeseeable and unavoidable expenditure must be reported by the mayor to the municipal council at the next meeting of the municipal council and are appropriated in an adjustment budget. Pauw *et al.* (2014:286) aver that if such an adjustment budget is not passed within 60 days of the occurrence of expenditure, it must be treated as unauthorised expenditure as provide in Section 32 of the *MFMA* (RSA, 2003).

Fourie and Opperman (2015:516-517) and Pauw *et al.* (2015:32) view fruitless and wasteful expenditure as expenditure made in vain and would have been avoided had reasonable care been exercised. Pauw *et al.* (2015:52) further view irregular expenditure as spending other than unauthorised incurred in contravention of or which is not in accordance with a requirement of any applicable piece of legislation. The National Treasury (RSA, 2008b:13) refers to unauthorised expenditure to money that was spent for purposes other than for which it was allocated or

expenditure in excess of what was allocated. Pauw *et al.* (2015:50) confirm that unauthorised expenditure is a misdirected spending, overspending or unlawful spending, which should be avoided at all times.

In terms of Section 62(1)(d) of the *MFMA* (RSA, 2003), the municipal manager, as the accounting officer of municipality, must take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented. Fourie and Opperman (2015:60-61) agree with the above statement by arguing that the municipal manager must ensure that unauthorised, fruitless and wasteful expenditure is recovered from the person liable for such expenses, except if these type of expenditure is authorised in an adjustment budget, or this expenditure has been certified by the municipal council after an investigation by a council committee as irrecoverable and has been written off by the particular Municipal council. Furthermore, the municipal manager must timeously inform the Mayor, the MEC for Local Government and the Auditor-General in writing of any of these types of unauthorised, fruitless and wasteful expenditure incurred by the municipality as well as what steps have been taken to recover or to rectify and also to prevent a recurrence of such expenditure.

The Auditor-General, reported that the Free State municipalities experienced irregular expenditure of R675 million, due to deviations in relation to the use of contracts secured by other organs of state without meeting the requirements of SCM Regulation 32 (Contracts secured by other organs of state). The Auditor-General further cautions that irregular expenditure creates an environment open to misappropriation, wastage and abuse of funds (AGSA, RSA, 2017:56). In Section 3.14 it was mentioned by the Auditor- General, that late payments in the Free State Province to suppliers such as Eskom and water boards contributed to most of the fruitless and wasteful expenditure of R324 million (AGSA, RSA, 2017:56-57).

According to IPFA (2014:32), in instances of over expenditure, the amount by which the total of a vote was exceeded in a specific financial year must form a charge against the amount appropriated in the next financial year. The municipal council may, however, recommended that an additional amount be appropriated by means of a finance act. This will be deemed a direct charge against the relevant revenue fund. Regardless of whether the unauthorised expenditure is

recovered in terms of the prescribed procedures, disciplinary action can still be taken against the accounting officer or any other official in terms of the Section 32(5) or the *Public Service Act* (RSA, 1994).

In terms of Section 171 of the *MFMA* (RSA, 2003), an accounting officer of the municipality commits an act of financial misconduct if that officer deliberately makes or permits or instructs another official of the municipality to make an unauthorised, an irregular or a fruitless and wasteful expenditure (Thornhill and Cloete 2014:126). Section 32(6) of the *MFMA* (RSA, 2003) requires that the accounting officer must report the alleged unauthorised expenditure, theft and fraud in the municipality to the South African Police Services. Section 32 of the *MFMA* (RSA, 2003) sets out the following conditions for liability. A political office-bearer of the municipality is liable for unauthorised expenditure if the particular office-bearer has been advised about or knows about the legality of this type of expenditure. The accounting officer of the municipality is also liable for unauthorised expenditure, and any political office bearer or any official who negligently or deliberately makes any unauthorised, irregular or fruitless and wasteful expenditure is liable for such expenditure (Sibanda 2017:329). In terms of Section 32 of *MFMA* (RSA, 2003), the municipality must recover such expenditure from a liable person. However, an expenditure, which is authorised in an adjustment budget or certified by the municipal council, is irrecoverable. If the accounting officer is aware of the likelihood of unauthorised expenditure and informs the municipal council accordingly, he or she cannot be held liable (Sibanda 2017:332-333).

According to Fourie and Opperman (2015:60-61), the Municipal council has a duty to ensure that all resources of the municipality must be utilised in the best interests of the local community. This duty must be extended to individual councillors by the code of conduct for councillors, which states that a councillor must perform the functions of office in good faith, honestly and in a transparent manner, in such a way that the credibility of the municipality is not compromised. Thus, the main aim of all expenditure is the rendering of municipal services, including, but not limited to, basic services, developmental capacity building projects, infrastructure (such as roads, housing, etc.) and assets. It is in the spirit that unauthorised, irregular or a fruitless and wasteful expenditure must be avoided at all costs. One could argue that these kinds of expenditure run contrary to the spirit and notion of developmental local government.

The section that follows focuses on a discussion about debt management as one of the key aspects of financial management of municipalities.

4.7 AN OVERVIEW OF DEBT MANAGEMENT

The South African Budget Guide and Dictionary (RSA, 2002:94) refers to debt as sums that must be repaid by individuals, companies and the state and in particular municipalities. National debt is the money owed by the state, and interest is normally payable on debt. Majam (2017:195) refers to public debt as the money owed by the three spheres of government to international and local creditors. Majam (2017:197) further states that public debt management entails the steps taken by national government to formulate and to enforce mechanisms to deal with the debt incurred by government. Van der Waldt *et al.* (2018:237) point out that a significant proportion of revenue of municipalities are collected from levying of rates and other taxes and the charging of fees for municipal services.

In terms of the *MFMA* (RSA, 2003) and the *MSA* (RSA, 2000), the municipality must collect all money that is due and payable to it. Van der Waldt *et al.* (2018:237) state that the Municipal council of the municipality must adopt bylaws to give effect to the credit control and debt collection policy of the municipality. Furthermore, the credit and debt control policy should be reviewed in accordance with the municipal council policy on indigents that refer to those who fail to pay for their municipal services. Van der Waldt *et al.* (2018:237) warn that such policies must be consistent with the municipalities' rate and tariff policies to make provision for the following aspects concerning credit control and debt collection:

- To provide for credit control procedures and mechanisms;
- To provide for debt collection mechanisms and particular procedures;
- To make provision for indigent customers in line with national policy on indigents;
- To make provision for realistic targets consistent with the estimates of income given in the budget;
- To make provision for the payment of interest on those in arrears;

- To make provision for extensions of time for payments of accounts;
- To ensure that services are terminated or restricted when payments are in arrears;
- To make provision for matters relating to unauthorised consumption of services, theft and damages; and
- To make provision for public disclosures of information.

According to Kleynhans and Coetzee (2019:3), the most important factor that influence the municipalities debt liabilities, are their income revenue and expenditure. It implies that municipalities should be able to using the revenue generated through their own means to settle all their debt obligations of their budget within 60 days. Kleynhans and Coetzee (2019:3) further, aver that municipalities should be able to generate enough revenue to cover their expenses without any debt. Chetty (2015:103) is of the opinion that poor debt collection and an increase in outstanding debts year on year are and indicator to the fact that municipalities have a challenge in the collection of outstanding debts. In Section 4.8 in this chapter, the status of the Free State municipalities' debtors is illustrated. It is therefore an imperative that the municipal council takes ownership of the debt management processes and enforces municipal policies. Gildenhuis (2018:176) caution that much is said about the R4,75 billion municipalities owe to Eskom, but little is mentioned about the exorbitant amount of R98 billion owed to municipalities for services rendered such as water, sanitation, waste management and electricity. One could argue that if municipalities are not able to collect the generated revenue from services, then rendering the services becomes unsustainable. There is no doubt that debt management in most municipalities is a concern. A discussion about municipal budgets and debt management is outlined below.

4.7.1 Municipal budget and debt management

According to Chetty (2015:101), municipal operating budgets consist of two broad parts, namely the revenues and expenditures or spending of the municipality. Section 64 of the *MFMA* (RSA, 2003) determines that revenues represent the various financial resources available to local governments. Local governments generally rely upon the local property tax, intergovernmental aid and charges for local services for the majority of their revenues. Spending by local governments

reflect the array of services and facilities provided by local government. According to the National Treasury (RSA, 2013d:18), any one of the following events could push the municipalities that already have very low cash coverage into a negative cash position:

- A continued decrease in the municipalities revenue collections as a result of a slow-down in the economy (economic recession or slow economic growth)
- Continued increases in rates and tariffs on the affordability of household budgets,
- The non-payment to priority suppliers, especially contractors responsible for capital projects,
- An increased cost of bulk electricity and water; and
- Any major breakdown in service delivery resulting in non-supply (especially water and electricity).

In the light of the above the National Treasury (RSA, 2013d:25) cautions that the growth in the level of consumer debtors may also be attributed to the following:

- Failure on the part of Mayors and Municipal councils to provide political support to revenue enhancement programmes (often Councillors are in arrears with their own payments);
- Failure on the part of municipal managers to allocate sufficient staff/capacity to the revenue collection function, this situation compromising implementation of policies to enhance revenue;
- Poorly designed revenue management, and debtor policies;
- Non-payment for services and resistance among certain communities to pay for certain types of services (or to be billed in a particular way); and
- Other aspects such as ratepayer boycotts, as a result of poor or deteriorating service delivery, or perceptions that the municipality is unresponsive to community concerns.

Except for the above, Chetty (2015:82-83) points out that the National Treasury (RSA, 2011a:71) indicates that municipal consumer debt includes late payments for property rates, service and other municipal charges, as well as amounts that are deemed irrecoverable. Furthermore, the National Treasury, (RSA, 2011:71) states that municipal consumer debt has a number of potential impacts. Consumer debt can cripple the cash flow of municipalities and it could decrease a municipalities' ability to fulfil constitutionally mandated responsibilities. Another concern is that municipal consumer debt reduces the municipalities' available finance to be able to delivery basic services and the municipalities' ability to upgrade infrastructure and its ability to do maintenance (Chetty, 2015:82-83).

4.7.2 Debt incurred by the municipality

According to Thornhill and Cloete (2014:135), municipalities need buildings, roads, bridges, expensive machinery, electronic and other equipment in order to perform their responsibilities. In most cases, the income of municipalities is insufficient hence the need to incur a debt. Thornhill and Cloete (2014:112) provide that a debt can only be incurred in terms of a relevant legislation and if approved by the Council of the municipality at a meeting that is open to the public and of which the municipal manager has given prior notice.

Thornhill and Cloete (2014:112) further provide that *MFMA* (RSA, 2003) clarifies the responsibilities of the municipality in incurring debt, as the debt, involves a financial burden on current and future inhabitants. According to Section 45(1) of the *MFMA* (RSA, 2003), short-term debt is to be repaid within the financial year in which it is incurred. The municipality may incur short-term debts in accordance with the act to bridge shortfalls within a financial year during which the debt is incurred, but only if it could reasonably expect to raise the required funds within the financial year. Furthermore, capital needs within the financial year must be repaid from specific funds received from enforceable allocations of through long-term commitments.

A commitment to incur a short-term debt requires a prior resolution by the Council, signed by the Mayor and the accounting officer. Any short-term debt must be repaid within the particular financial year in which the debt was incurred. A Council is not allowed to renew or refinance such debt. A lender may also renew or refinance a short-term debt. Long-term debt is debt incurred for

capital expenditure on property, plant, equipment and other matters that have a life span of a number of years. According to Section 46 (1) of the *MFMA* (RSA, 2003), the municipality may incur a long-term debt only to finance capital expenditure on property, plant or equipment required to perform its functions as set out in the constitution, and refinancing existing long-term debt under particular circumstances.

A long-term debt may, as is the case with a short-term debt only be incurred with the prior approval of the council signed by the mayor and the accounting officer. In the case of long-term debt, the accounting officer has to give notice of the intention of such debt prior to the council meeting. The public, national treasury and the relevant provincial treasury must be invited to submit written comments or make representations to the council in respect to the proposed debt. The accounting officer is furthermore obliged to submit to council, prior to the matter being tabled, an information statement with particulars of the essential repayment terms, the repayment schedule as well as the cost in connection with the debt over the repayment period. According to Chapter 6 of the *MFMA* (RSA, 2003), municipalities are allowed to spend money on capital projects, and incur long-term debt in accordance with the following requirements,

- **Borrowing.** In terms of Chapter 6 of the *MFMA* (RSA, 2003), the municipality may borrow money for the purposes of refinancing existing long-term debt only if the long-term debt had been lawfully incurred, the refinancing does not extend the term of the debt beyond the useful life of the property or equipment acquired, and other normal financial requirements must be met.
- **Security.** In terms of Section 48 of the *MFMA* (RSA, 2003), the municipality may, by resolution (decision of council), provide security for example, any debt obligation or contractual obligations of the municipality. Such security may be giving right on property, pledging or mortgaging, undertaking to effect payments, undertaking to deposit funds; or agreeing to specific payment mechanisms.
- **Guarantees.** The municipality may issue a guarantee for any commitment or debt of any organ of state or person only if the guarantee is within the limits specified in the municipality's approved budget. The municipality may guarantee the debt of a municipal

entity under its sole control only if it is authorised by Council and, in the case of a shared municipality entity, with the approval of the national treasury (Section 50 of the *MFMA*, RSA, 2003).

In the light of the above, it is important to note that, according to Section 51 of the *MFMA* (RSA, 2003), the national and provincial governments are barred from guaranteeing debt of the municipality or a municipal entity, though there are exceptions.

4.7.3 Debt incurred by municipal consumers

Municipal consumer debt has a number of potential effects, such as the crippling of the municipality's cash position and thus its ability to fulfil its constitutionally mandated responsibilities. Municipal consumer debt can also reduce the funding available for the delivery of basic services, infrastructure, maintenance and upgrading (Free State Provincial Treasury, RSA, 2014:6-20).

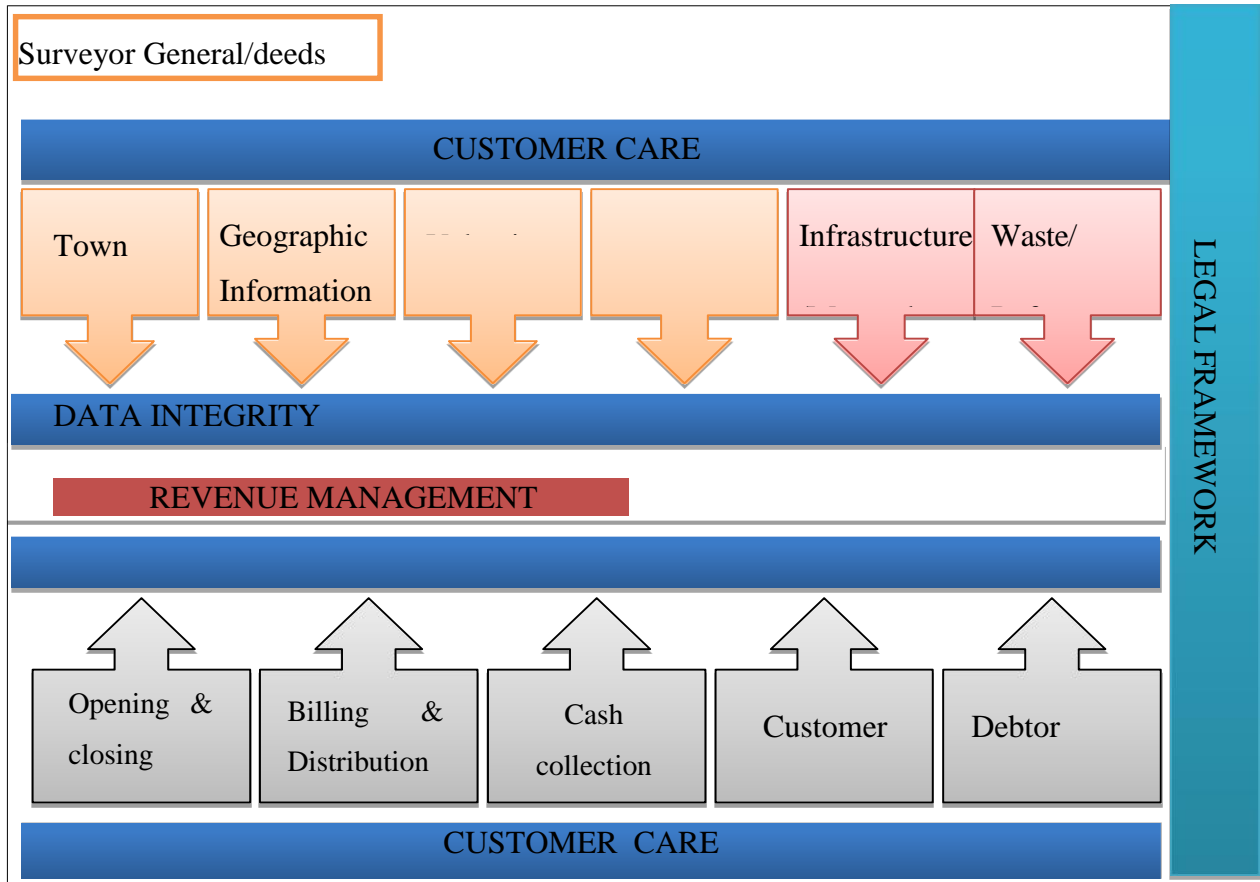
Outstanding payments also represent foregone resources that could be used to improve the living conditions of the poor. The Free State Provincial Treasury (RSA, 2014:6-20) gives several possible reasons as to why this type of debt arises. The first reason is poor performance by municipalities in the form of inaccurate billing, weak credit control measures, and lack of customer service mechanisms, thus reinforcing non-payment.

In addition, consumers may be unable to pay because of unemployment and poverty. The causes of non-payment in South African municipalities have been the focus of several studies, including those of Booyesen (2001), Botes and Pelsler (2001), Burger (2001) and Fjeldstad (2004). However, as most of the studies were carried out in the early to mid-2000s, changes in the local government sphere warrant a thorough and updated investigation of the factors driving this kind of debt. The multiple impacts of municipal consumer debt are a public finance and intergovernmental fiscal concern. Municipalities and local government policymakers need to understand the extent of this debt and how to manage related challenges and risks better. It is important to discuss accountability as one of the factors that could have a positive effect in terms of debt management.

4.7.4 Debt management cycle

According to Chetty (2015:108) and the National Treasury (RSA, 2012:7), the debtor's management cycle comes from the billing and invoicing of customers to the actual collection of revenue for the municipal services provided. The major portion of any local municipality's revenue comes from the payment for services. Therefore, to collect revenue municipalities must bill their customers on a monthly basis for services provided. In addition, municipalities must implement control measures to ensure that all revenue is recorded and properly accounted for on their financial systems. It is the responsibility of the CFO of the municipality to ensure that systems are in place to ensure that billing is done correctly to avoid non-payment for services provided by the municipality. In terms of Section 64 of the *MFMA* (RSA, 2003), the billing function is one of the principal mechanisms that drives all cash flow of the municipality.

The Free State Provincial Treasury (RSA, 2014:6) emphasises that during the opening of accounts data, integrity is critical to effective billing, which is the first vital stage of the revenue value chain. The ability to collect debt remains dependent on the accuracy of the debtor information. The Free State Provincial Treasury (RSA, 2014:6) further determines that inaccurate debt information results in poor debt collection. It is only once this information is correct that municipalities can implement actions to collect the debt and communicate with the debtor. The Free State Provincial Treasury (RSA, 2014:6) further points out that debt collection without accurate information may result in partial collections, if any, and a debtor that is not fully rehabilitated could continue to default. It is only once the debtor information has been verified and reconciled that it can be established that the customer does exist and will be able to pay the account. The municipality can then effectively implement a credit control policy and debt collection process. Figure 4.3 below shows the municipal revenue value processes, from the taking on of a debtor, to the billing and management of debtors.



(Source: Adapted from Chetty, 2015:108).

Figure 4.1: Municipal Revenue Value Chain

Figure 4.3 above presents the municipal revenue value chain reflecting the interdependence of activities in the municipal revenue collection process. The National Treasury, (RSA, 2012:11) determines that each customer should have their own water and electricity account, and customers cannot inherit an existing water and electricity account from a previous owner or tenant of a property. In addition, Figure 4.3 further shows that credible debtor details are paramount to ensure billing efficiency, culminating in effective collections and debtor management processes.

Except for the above, the USAID (2010:16) recommends that when opening an account in terms of a contract for the supply of water and electricity, the following basic information must be a furnished by the customer:

- A copy of a valid South African identity document;
- The details of next of kin;
- Details of the bank account;
- The contact details, including name, telephone and cell phone numbers, physical and postal addresses, and e-mail address;
- Deposit amount (cash, cheque or internet banking);
- A copy of offer to purchase or deeds document;
- The meter number/s and latest readings; and
- A completed application form for the supply of water and electricity.

In addition to the above Section 64 of the *MFMA* (RSA, 2003) and Section 95 of the *MSA* (RSA, 2003), it is required that municipalities must have an effective system for revenue collections and a credit and debt collection policy, respectively. The opinion is held that the value of the above-mentioned information is heightened when it is assessed relative to equivalents for income groups, the median or some national norm/benchmark. McPhail (1993:969) suggests incorporating assessments of affordability and willingness to pay at the planning stage of a public good such as water or electricity, especially if the intention is to recover costs. McPhail (1993:969) further mentions that such information can provide insight into potential service usage patterns and, therefore, the tariff to be charged in order to maximise cost recovery.

Despite the obvious importance of having an indication of willingness to pay, McPhail (1993:969) argues that policymakers continue to make general assumptions about the population to be served and the per capita consumption rates. The result is that tariff setting is based on the covering of operating, maintenance and capital costs, without considering what people are willing to spend, which could even exceed the set rate.

In a study of five Moroccan states in a bid to determine whether the price charged for water was set correctly or whether there was an opportunity to make individual house connections available to some of the indigent households at retail level, McPhail (1993:969) found that many low-income

households, even those with access to free stand-post water services, were willing to pay in excess of 5% of their total household expenditure for individual water services. The implication of these findings is that South Africa needs to re-examine the indigent policies determining which portions of the population cannot afford to pay for services.

In the next section, an analysis of the Free State municipalities drafts budget and debt management for the financial year 2015/2016 and 2016/2017 are provided.

4.8 AN ANALYSIS OF FREE STATE MUNICIPALITIES' DRAFT BUDGET AND DEBT MANAGEMENT FOR 2015/2016 AND 2016/2017 FINANCIAL YEAR

According to Section 16(2) of the *MFMA* 2003, all municipalities are obligated to table the annual budget at least 90 days before the start of the municipal budget year, which is by 31 March of each year. During the financial year 2015/2016, all twenty-three (23) municipalities in the Free State tabled their draft budgets on or before 31 March 2015 in compliance with Section 16(2) of the *MFMA* (RSA, 2003) and National Treasury, (RSA, 2009e). During 2016/2017, only one (1) municipality did not comply with requirements for tabling of annual budget by 31 March 2016. Table 4.1 below provides a summary of the budgets for the 2015/2016 and 2016/2017 financial years.

Table 4.1: Summary of Municipal Budgets for 2015/2016 and 2016/2017

Municipalities R'000	2015/2016			2016/2017			%Increase /(Decrease)
	Capital Budget	Operating Budget	Total	Capital Budget	Operating Budget	Total	
Xhariep	385	55,679	56,064	5	54 418	54 423	2.9
Letsemeng	22,218	115,543	137,761	70 867	138 849	209 716	52.2
Kopanong	45,701	293,285	338,986	66 379	307 530	373 909	10.3
Mohokare	76,860	173,350	250,210	95 105	167 232	262 337	4.8
Naledi	13,372	105,022	118,394	13 591	108 820	122 411	3.4
Mantsopa	42,205	232,357	274,562	20 090	314 186	334 276	21.7
Lejweleputswa	1,755	124,989	126,744	700	117 700	118 400	-6.6
Masilonyana	47,979	247,140	295,119	22 500	228 103	250 603	-15.1
Tokologo	50,326	87,812	138,138	75 608	84 055	159 663	15.6
Tswelopele	41,855	112,759	154,614	44 906	158 209	203 115	31.4
Matjhabeng	146,450	2,045,071	2,191,521	133 363	2 036 734	2 170 097	-1.0
Nala	45,853	459,144	504,997	34 300	388 422	422 722	-16.3
Thabo Mofutsanyana	1,562	114,565	116,127	2 412	104 704	107 116	-7.8
Setsoto	72,890	419,352	492,242	104 020	448 092	552 112	12.2
Dihlabeng	78,080	674,064	752,144	71 889	703 805	775 694	3.1
Nketoana	67,767	288,127	355,894	94 655	301 329	395 984	11.3
Maluti a Phofung	260,791	1,697,796	1,958,587	250 920	1 558 461	1 809 381	-7.6
Phumelela	33,720	130,666	164,386	47 500	150 534	198 064	20.5
Fezile Dabi	6,968	201,317	208,285	3 330	151 615	3 482	1571.6

Municipalities R'000	2015/2016			2016/2017			%Increase /(Decrease)
	Capital Budget	Operating Budget	Total	Capital Budget	Operating Budget	Total	
Moqhaka	130,306	705,046	835,352	103 571	729 434	833 005	-0.3
Ngwathe	99,937	679,309	779,246	64 920	738 411	803 331	3.1
Metsimaholo	151,178	868,234	1,019,952	122 932	970 984	1 093 916	7.3
Mafube	34,900	183,623	218,523	34 901	182 973	217 874	-0.3
TOTAL	1,050,194	7, 379,359	8, 429,553	1,152,496	7,373,957	8 526 453	1.1

(Source: Free State Provincial Treasury Database, RSA, 2017).

The Free State total municipal budgets amounts to R8, 526, 453 billion of which R1, 050, 194 billion is for capital projects and R7, 379, 359 billion is for operating expenditure. This represents an increase of 1.1% from R8, 429, 553 billion in the 2015/16 financial year to R8, 526, 453 billion in the 2016/17 financial year.

For the 2015/2016 financial year, the Free State municipalities' reported draft budget to National Treasury, wherein it was indicated that the capital budgets and IDPs are aligned. This could not be confirmed for all municipalities as the Free State Provincial Treasury could confirm, as most municipalities did not submit their IDPs to the Provincial Treasury to confirm the alignment between the two documents, this occurrence was repeated in 2016/2017.

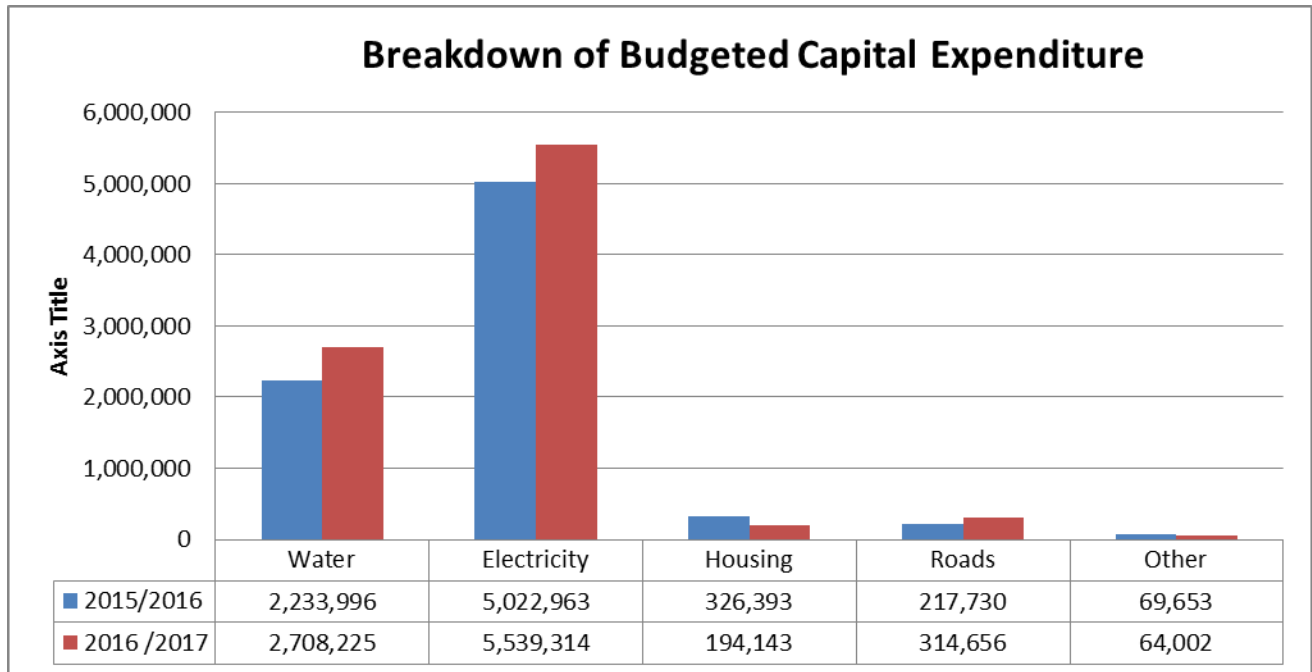
The breakdown of expenditure in function is tabulated in the Table 4.2, below showing increases in water, electricity and roads. The regression is indicated in expenditure on housing and other capital expenditure. The housing function is not entrusted to all municipalities because of capacity constraints.

Table 4.2: Breakdown of Budgeted Capital Expenditure

Function	2015/2016	2016 /2017	% Increase/ (Decrease)
Water	2,233,996	2,708,225	21,23%
Electricity	5,022,963	5,539,314	10,28%
Housing	326,393	194,143	40,5%
Roads	217,730	314,656	44,5%
Other	69,653	64,002	8%
Total	7,870,735	8,820,340	12%

(Source: Free State Provincial Treasury Database, RSA, 2017).

In addition to the above, Figure 4.1 below illustrates the breakdown of budgeted capital expenditure

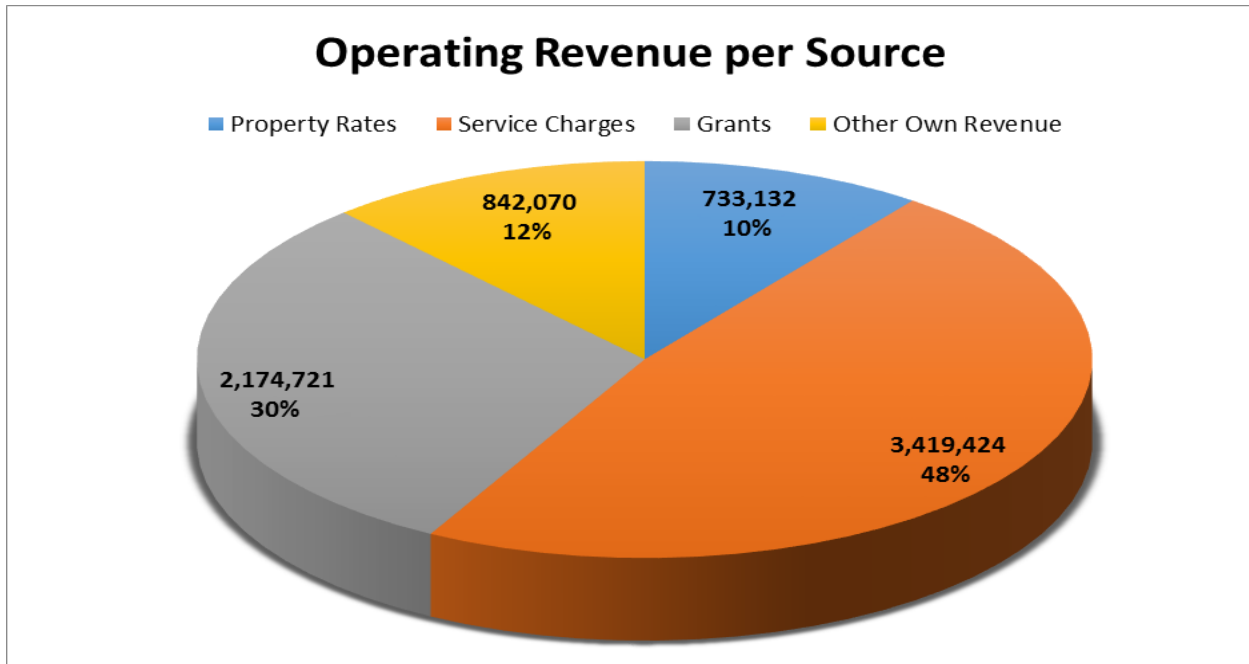


(Source: Free State Provincial Treasury Database, RSA, 2017)

Figure 4.2: Breakdown of Budgeted Capital Expenditure

From Figure 4.1 above it can be deduced that the capital expenditure budget will be funded mostly (95%) by ‘Grants & Subsidies’ from National Treasury, with 2% of the capital funding being obtained from “internal contributions” and 2% from external loan, whilst 1% of the funding will be through other.

The total operating expenditure budget amounts to R7, 379, 359 billion for municipalities of the Free State Province. This represents an increase of 1.1% compared to R8, 429, 553 billion in the 2015/16 financial year. Figure 4.2 below shows the breakdown of budgeted operating revenue per source of income.



(Source: Free State Provincial Treasury Database, RSA, 2017)

Figure 4.3: Breakdown of Budgeted Operating Revenue per Source of Income

From the Figure 4.2 above it is clear the Other Revenue represents 12% of the total operating revenue generated in the Free State Province. This revenue includes items such as interest on investments and outstanding debt, hiring of venues, reconnection fees, and traffic fines, etc. In the discussion below an analysis of the Free State Municipalities' outstanding debtors of the financial year 2015/2016 and 2016/2017.

4.8.1 An analysis of Free State municipalities outstanding debtor's financial year 2015/2016 and 2016/2017

At the end of June 2017, the total outstanding debtors amounted to R12,4 billion, of which 82.9% were outstanding for longer than 90 days. This is indicative that most municipalities are struggling to collect all revenue for services and therefore the municipalities are more dependent on grants.

According to Chetty (2015:82), the National Treasury (RSA, 2010b:30) provides that the growth in the level of consumer debtors pre-dates the slowdown in the economy; therefore, the slowdown can only be a partial explanation. Chetty (2015:82-83) maintains that debt within the Free State municipalities is caused by, the following:

- A failure on the part of Mayors and Municipal councillors to provide political support to revenue enhancement programmes in that some Councillors are in arrears with their own payments;
- Municipal managers often fail to ensure that sufficient staff/capacity are allocated to the revenue collection function, which compromises the implementation of policies to enhance revenue collection.
- Municipal managers often fail to ensure that effective revenue management, credit and debtor control policies are designed and implemented.
- The continued resistance among certain communities to pay for certain types of services.
- Continued service delivery unrest and ratepayer boycotts because of poor service delivery.
- The continued increases in debtors for most municipalities, leads to negative impact on service delivery and it increases the dependence of the municipalities on national grants.
- Some municipalities have a credit and debtor policies in place but these municipalities do not implement it due to political interference.
- Most municipalities in the Free State Province do not have an effective debt collection strategy in place.
- A serious concern is that some Councillors do not take their oversight and monitoring responsibilities seriously.

The above is an indication that municipalities in the Free State Province have deficiencies concerning their financial management controls that contribute to debt management challenges.

4.8.2 An analysis of the performance agreements, delegations and the Service Delivery Budget Implementation Plan (SDBIP)

According to the National Treasury (RSA, 2013d) most municipalities in the Free State Province do not spend their conditional grants as stipulated in the annual DoRA and use conditional grants to pay salaries. Another concern raised by the National Treasury (RSA, 2013d) is that

municipalities in the Free State Province also do not spend their conditional grants because of poor planning and a lack of staff capacity, which leads municipalities to lose the unspent conditional grants to the National Revenue Fund. Another concern raised by the National Treasury (RSA, 2013d) is that municipalities in the Free State Province tend to spend their conditional grants close toward the end of the financial year due to a lack of proper planning and in effective supply chain processes.

In the light of the above, Williams (2018:11) maintains that municipal debt in South Africa increased with a total of 6.8% (R225,8 billion) in 2017. In the financial year of 2016/2017, 257 municipality owed creditors a total amount of R226 billion. The municipal debt in the Free State Province increased the most with a total of 26.8%, while municipal debt in the Northern Cape increased with 19.3% and 15.1% in Mpumalanga. Williams (2018:11) further states that municipalities' debt to Eskom and for water services increased with 43% in 2017. Except for the above, Gericke (2017:9) warns that municipalities in the Free State Province who do not pay their suppliers for rendering services or goods within 30 day's lead to the fact that many of these suppliers go bankrupt.

4.9 SUMMARY

This chapter explores the statutory and legislative framework for local government and municipal financial management. It was emphasised, that in terms of Section 153(a) of the *Constitution* (RSA, 1996), municipalities must manage and structure their administration, budgeting and planning processes in such a manner that they give priority to the basic needs of the community. In terms of the WPLG (RSA, 1998:85), all municipalities have to use their scarce resources in an effective, efficient and economically manner to gain the maximum benefit for its communities.

It was argued that municipalities cannot achieve their constitutional obligations to deliver services to the community without sufficient and viable finances. It implies that municipalities must collect enough revenue to cover all their expenditure. The continuous increasing of irregular expenditure and poor financial performance of municipalities as provided in the annual Auditor-General reports on the audit outcomes of municipalities is a consequence of non-compliance with laws and regulations. The Auditor-General (AGSA, RSA, 2018:10) confirms that during the 2017/2018 financial year all (100%) of the municipalities of the Free State Province had a vulnerable financial

position due to non-compliance with legislative provisions and regulations and due to an increase in irregular expenditure. It appears that most municipalities rely on national transfers to sustain their revenue, this leads to irregular expenditure and an increase in debt. A concern was raised that poor revenue collection is attributed to a culture of non-payment for services, poor recording systems, and accounts not sent to debtors. This is a confirmation of poor revenue collection in most municipalities of which the municipalities of the Free State Province cannot be excluded.

I was emphasised that the municipal manager as the accounting officer of the municipality cannot delegate his or her accountability function is held answerable to the Auditor-General for all the financial affairs of the municipality. The CFO of the municipality must oversee and take responsibility for the performance of financial management of the municipality.

The discussion about expenditure management and the different types of expenditure in local government emphasised that the municipal manager must timeously inform the mayor, the MEC for Local Government and the Auditor-General in writing of any unauthorised, fruitless and wasteful expenditure incurred by the municipality, as well as what steps have been taken to recover or to rectify, and also to prevent a recurrence of such expenditure. It was further explained that the municipal manager has to report all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits to the council in a format and for periods as may be prescribed.

The discussion highlighted that the biggest infrastructure and maintenance challenges lies with access to water and sanitation, which is one of the constitutional basic rights. It appears that there are many weaknesses across all municipalities including the municipalities of the Free State Province to deliver on infrastructure maintenance and projects. This is a confirmation of weaknesses in budget management of municipalities, completion of infrastructure projects, lack of accountability for municipal infrastructure and non-compliance with relevant legislation and regulations.

The discussion about debt management show that that the growth in the level of consumer debtors may be caused by many factors. Some of these factors include the failure on the part of mayors and municipal councils to provide political support to generated revenue to cover their expenditure. Councillors themselves are often in arrears with their own payments. The failure on the part of municipal managers to allocate sufficient staff/capacity to the revenue collection function, poorly

designed revenue management, and debtor policies. Another factor is the non-payment for services and resistance among certain communities to pay for certain types of services. Other aspects such as rate-payer boycotts as a result of poor or deteriorating service delivery, or perceptions that the municipality is unresponsive to community concerns also hampers revenue collection, and leads to non-payment or late payment of the municipalities debtors.

It was also emphasised that consumer debt can cripple the cash flow of municipalities and it could decrease the municipality's ability to fulfil constitutionally mandated responsibilities. Another concern is that municipal consumer debt reduces the municipality's available finance to be able to delivery basic services, and the municipalities' ability to upgrade infrastructure and its ability to do maintenance. Furthermore, the growth in the level of consumer debtor's pre- dates the slowdown in the economy

Lastly, in the discussion about the analysis of the Free State Municipalities Draft Budgets and debt management for the 2015/2016 and 2016/2017 it was show that Free State municipalities' debt is caused by *inter alia* the following:

- some councillors are in arrears with their own payments;
- municipal managers often fail to ensure that sufficient staff/capacity is allocated to the revenue collection function that compromise the implementation of policies to enhance revenue collection;
- municipal managers often fail to ensure that effective revenue management, credit and debtor control policies are designed and implemented;
- the continued resistance among certain communities to pay for certain types of services;
- continued service delivery unrest and ratepayer boycotts as a result of poor service delivery;
- the continued increases in debtors for most municipalities lead to negative impact on service delivery and it also increases the dependence of the municipalities on national grants;

- some municipalities have credit and debtor policies in place but these municipalities do not implement it due to political interference;
- most municipalities in the Free State Province do not have an effective debt collection strategy in place; and
- a serious concern is that some municipal councillors do not take their oversight and monitoring responsibilities seriously.

Thus, municipalities in the Free State Province have deficiencies concerning their financial management controls that contribute to debt management challenges. Lastly, it was emphasised that municipalities in the Free State Province that do not pay suppliers of services and goods within 30 days, go bankrupt.

CHAPTER FIVE: AN ANALYSIS OF THE CREDITORS/SUPPLIERS AND THE PAYMENT TO SUPPLIERS BY FREE STATE MUNICIPALITIES

5.1 INTRODUCTION

As part of the qualitative data collection and data analysis of this study, this chapter provides a comparative analysis of municipal procurement practices and the payment to the creditor groups or suppliers of the district municipalities of the Free State. It also provides a comparative analysis of the municipal procurement management practices in the Free State, compared to those of the other eight provinces in South Africa, using secondary data from the Local Government Database of the National Treasury of 2017 (RSA, 2017c).

The chapter explored the sources for financing municipal creditors, the composition of the annual budget, operating budget, capital budget as well as budgeted capital expenditure. The chapter will conclude with the discussion on customer services. The chapter examines the creditors of the municipalities of the Free State and the perceived impact of procurement management practices on each category of creditors/suppliers as stated on the National Treasury Local Government Database of 2017 (RSA, 2017c). Municipalities must have policies and procedure in place to ensure that the collection from outstanding debtors takes place in accordance with Section 64(2) of the *MFMA* (RSA, 2003) and Sections 96(a) and (b) of the *MSA* (RSA, 2000) National Treasury, RSA, 2017c. Therefore, this chapter attempts to describe the status and the payment of the creditors and suppliers of the Free State municipalities.

5.2 THE CREDITORS OF FREE STATE MUNICIPALITIES

According to Pauw *et al.* (2015:162), the term “creditor” means a person or organisation from whom goods or services have been bought on account and to whom which the outstanding amount has not yet been paid in full. National Treasury (RSA, 2007a) defines a creditor as a person to whom money is owed by the municipality or municipal entity. Whereas, Fourie and Opperman (2015:412) define a creditor as a person to whom money is owed by the municipality.

Fourie and Opperman (2015:412) are of the view that creditor payments include a wide variety of types of payments. This includes contractual obligations with regard to capital and operational needs, stock purchases, and obligations relating to the purchase of goods and services, such as bulk

electricity purchases, bulk water purchases, professional fees, and the redemption of external debt such as trade creditors, loan repayments, pensions/retirement, and VAT/PAYE deductions.

5.2.1 Different categories of creditors

According to the National Treasury (RSA, 2017c) the different categories of creditors of the Free State Province municipalities are bulk electricity, bulk water, PAYE (Pay as you Earn) deductions, VAT payments, pensions or retirement funds, loan repayments, trade creditors and audit fees that will be outlined below.

5.2.1.1 Bulk electricity

In terms of Section 84(c) of the *Municipal Structures Act* (RSA, 1998), a district municipality has the functions and powers to provide a bulk supply of electricity to all South African households, schools and clinics within the limits of available financial resources. Fourie and Opperman (2015:150) mention that Eskom provides electricity as a licensed supplier.

It is stated in the *Green Paper on Energy* (RSA, 1997:40) that, although Eskom is the largest single distributor in the country in terms of energy sales for final consumption and number of customers, there are still challenges that need to be addressed. For instance, approximately 40% of all homes in South Africa and tens of thousands of schools and clinics are without ready access to electricity supply. In some cases, electricity is used inefficiently and the electricity distribution industry continues to experience high levels of non-payment. However, Williams (2018:11) points out that the municipalities in the Free State's outstanding debt owed to Eskom and the water boards comprises 43% of the total debt.

5.2.1.2 Bulk water

In terms of Section 84(b) of the *Municipal Structures Act* (RSA, 1998), a district municipality has the functions and power to provide bulk supply of water to the communities it serves. Fourie and Opperman (2015:150) mention that in many rural municipalities, water is drawn from the municipality's own resources and there therefore no, or only very little provision has to be made for purchases from bulk water suppliers. Other municipalities purchase water from bulk water supply authorities such as Rand Water, Umgeni Water and Bloem Water. These suppliers enter

into contracts with municipalities for the provision of water. Municipalities are obliged in terms of Section 65 (2) (e) of the *MFMA* (RSA, 2003) to settle all obligations to suppliers within 30 days of receiving an invoice or statement. However, the total amount owed to Water Boards are R3 173 374 701.00.

5.2.1. 3 PAYE (Pay as You Earn) deductions

The Income Tax Act 58 of 1962 (RSA, 1962) defines an employee in the fourth schedule of Part 1 as follows:

- any person (other than a company) who receives any remuneration or to whom any remuneration accrues;
- any person who receives any remuneration, or to whom any remuneration accrues by reason of any services rendered by such person to, or on behalf of a labour broker;
- any labour broker, any person or class of or category of person whom the Minister of Finance by notice in the *Government Gazette* declares to be an employee for the purposes of this definition;
- any personalised service company; or
- any personal service trust.

Thus, PAYE is a tax that employers withhold or deduct from the remuneration of employees, thus ensuring that an employee's income tax liability is settled in a continuing fashion at the same time that the remuneration increases or is paid, contributing towards the country's revenue streams.

5.2.1.4 VAT (output less input)

Value Added Tax (VAT) refers to an indirect tax based on the consumption of goods and services in the economy. Revenue is raised for the government by requiring certain traders or vendors such as suppliers to register and to charge VAT on taxable supplies of goods and services. Fourie and Opperman (2015:260) maintain that in terms of the *Value Added Tax Act (Act 89 of 1991)* (RSA, 1991) municipal services are divided into the following four categories:

- Wholly VAT-able services, such as electricity, water, sewage and refuse removal, on the charges relating to which full output VAT is levied.
- Wholly VAT-able services, such as rate account services, but the charges relating to which (mainly property rates) are zero-rated for VAT purposes (no output VAT is levied).
- Wholly VAT-exempt services, such as public transport
- Partially VAT-able services, which are generally in-house support functions providing services to both the VAT-able and VAT-exempt functions (legal, financial and IT departments are among the most common) (Fourie and Opperman, 2015:260).

A more important consideration is whether the municipality applies its output VAT on the invoice or the payment basis. If the payment basis is used, the municipality is liable to pay over only the output VAT actually collected. If the invoice basis is used, VAT is accrued on all VAT-able service charges accruing to the municipality. This means that output VAT must be paid over to SARS, whether or not the municipality has collected the debt concerned. The prompt payment of VAT to SARS contributes towards the country's revenue streams for the attainment of National Development Plan and New Growth Path (Fourie and Opperman, 2015:260).

5.2.1.5 Pensions/retirement funds

Retirement funds are any remuneration of the employee that is taken into account in the determination of the retirement fund contributions made by an employee or by an employer on behalf of employees for example pension or provident fund. These contributions need to be paid over to the Government Employees Pension Fund (GEPF) administered by the National Treasury. These funds were previously taxed according to the *Retirement Funds Act (Act 38 of 1996)* (RSA, 1996), which was repealed with effect from 1 March 2007. The retirement funds contributions payable to the National Treasury relieve the government of the burden of unemployment of employees when they reach a certain legislated age.

5.2.1.6 Loan repayments

In terms of Section 46 of the *MFMA* (RSA, 2003), all municipalities are permitted to incur either short- or long-term debt from a financial institution, for the sole purpose of financing the capital assets to be used to carry out infrastructure projects. Chetty (2015:83) observed an increase in municipal loans from the Development Bank of Southern Africa (DBSA) in order to finance capital projects such as water installation and sanitation services and the eradication of the bucket system.

According to Fourie and Opperman (2015:323), municipal managements need to ensure that the terms and conditions of the final agreement of the loan are as originally stipulated, and they must consider the following to assist with the prompt repayment of loans.

5.2.1.7 Trade creditors

According to Peel, Wilson and Howorth (2009:3), trade credit involves supplying goods and services on a deferred payment basis that gives customers, in this case, municipalities' time to pay. For some small businesses, supplying trade credit can be an important strategic or competitive tool that plays a role in capturing new business and building supplier-customer relationship. However, the *MFMA* (RSA, 2003) provides in Section 65(2)(e) that accounting officers have to ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement.

5.2.1.8 Auditor-General

According to Fourie and Opperman (2015:16), the Auditor-General determines the basis for the calculation of audit fees to be recovered from auditees, after consulting the oversight mechanism and the National Treasury, and may charge interest on any audit account not paid within 30 days of the date of such account. If an auditee defaults on the payment of audit fees, the Auditor-General must promptly notify the National Treasury and the relevant Provincial Treasury, when applicable. If the audit fees exceed 1% of the total current and capital expenditure of the municipality for the relevant financial year, and the National Treasury is of the view that the auditee has financial difficulty in settling the cost, the excess must be defrayed from the National Treasury's own vote.

Pauw *et al.* (2015:212-215) caution all managers, in particular, municipal management to adhere to the payment conditions, although the credit provides cash flow and working capital relief. Pauw *et al.* (2015:212-215) further argue that the state, in this case municipalities, must lead by example as it also has a high moral obligation to honour that to which it has agreed, since late and non-payment can negatively affect township and rural SMMEs, youth and women owned SMMEs. These creditors might end up being reluctant to supply municipalities if they are always paid late.

5.3 THE CREDITORS' PAYMENT CYCLE

Municipalities must pay creditors in terms of the legislative requirements provided in MFMA (RSA, 2003). The MFMA (RSA, 2003) make provision for the payment of creditors in various sections but in particular in Section 11 and Section 12. Fourie and Opperman (2015: 412) explained that creditor payments include a wide variety of types of payments. As such creditor payments includes contractual obligations concerning operational and capital needs, any stock purchases and obligations relating to the purchasing of goods and services such as bulk water purchases, professional fees, and the redemption of any external debt.

According to Pauw *et al.* (2015:212-215), the different phases of the payment cycle include the following:

- **Agreement phase.** This is the phase where the supplier accepts the order and agrees to the payment terms and conditions of the municipal management.
- **Decision on Payment Terms phase.** This is the stage where municipal management decides on which invoices to pay first and whether or not to pay earlier in order to take advantage of early settlement discount;
- **Decision on Payment method phase.** This is the phase that the municipal management decides on the most economic method of payment to ensure that there is cash flow.
- **The Payment phase.** At this stage the policy and practice relating to managing creditors within the payment cycle, which include the following, should be considered.

Thus, the different phases of creditor's payment cycle start from when the creditor accepts the order through to when the payment is actually made by the municipality.

5.3.1 Cash discounts

Pauw *et al.* (2015:215) are of the view that in the event that municipal managements receive any cash discounts for early settlement, they should evaluate this against any finance cost involved and any cash flow considerations there might be.

5.3.2 Methods of payment

According to Fourie and Opperman (2015:414-415) and Pauw *et al.* (2015:215) observe, most transactions are settled through EFT (electronic fund transfer) payments. Pauw *et al.* (2015:215) aver that the following are the benefits of electronic fund transfers; the municipality can do these payments on a daily basis; it assists the municipality to predicting its cash flow; fraud in payments transaction is reduced; and reconciling of the different electronic transactions is quick and more accurate.

5.3.3 Age analysis of creditors

Creditors Age Analysis assist municipalities to have the names of suppliers available, including the amounts to be paid and the length of time the transaction is outstanding. The age analysis of creditors should be readily available when needed or when required for decision making purposes. The status of the creditors of the Free State municipalities, comprising district municipalities and affiliated local municipalities, are outlined in the section below.

5.4 STATUS OF CREDITORS OF FREE STATE MUNICIPALITIES OVER THE FINANCIAL YEARS 2014 TO 2017

The National Treasury, OCPO Presentation of Preferential Procurement Regulations (RSA, 2017b:15) provides that most municipalities understate outstanding creditors (National Treasury, RSA, 2017b). The National Treasury further mentioned that the above occurrence makes a major difference in the amounts reported through in-year reporting and those disclosed by municipalities in their annual financial statements. There is also an assumption that amounts are not disclosed for all sundry payments and contractual commitments (National Treasury, RSA, 2017b:15). Another concern raised by the OCPO, National Treasury (RSA, 2017b:15) is that most municipalities do not reconcile their creditors on a monthly basis to increase the quality of reporting and to ensure

that they manage their cash-flow effectively (National Treasury, RSA, 2017b). The above clearly indicates the ineffective implementation of Sections 96 and 97 of the *MSA* (RSA, 2000), which provides for the debt collection responsibility of municipalities, as well as their ability to adopt, maintain and implement a credit control and debt collection policy, which is exacerbated by poor procurement management practices.

Laubscher (2009:63) believes that financial control, which includes credit control, is of the utmost importance when it comes to ensuring success in local government in South Africa. Thornhill and Cloete (2014:113) provide that it is the responsibility of every senior municipal official to maintain sound financial management. Laubscher (2009:63) observes that currently, municipal managements face several challenges that hamper effective and efficient financial management. These challenges include poor procurement management practices, which result in non-compliance with Section 65(e) of the *MFMA* (RSA, 2003), which requires that all contractual obligations and money owed be settled within 30 days of receiving valid invoice.

The information stated in Table 5.1 below provides a quarterly comparative analysis of the Free State Municipal Analysis by Creditor Group for the Financial Years 2014-2017. It was extracted from the National Treasury Local Government Database 2014-2017 and is in accordance with Section 71 of the *MFMA* (RSA, 2003), which requires of municipal managements to report to the National Treasury on the financial performance of the municipality (National Treasury, RSA, 2015e; 2016a; 2017c). National Treasury (RSA, 2008b:52) requires of all municipalities to prepare an age analysis for the purposes of managing accounts payable to all creditors groups and to assist in ensuring prompt settlement of accounts.

Table 5.1 The quarterly comparative analysis of the Free State Municipalities by creditor group for the financial years 2014-2017

CREDITOR GROUPS	1st Q Total	2nd Q Total	3rd Q Total	4th Q Total	Grand Total
2014/2015					
Bulk Electricity	6,323,642	913,799	993,367	1,393,342	9,624,149
Bulk Water	2,626,699	856,215	952,191	1,083,931	5,519,036
PAYE Deductions	323,953	36,597	29,556	24,717	414,823
VAT (output less input)	(88,161)	25,945	(5,661)	39,412	(28,466)
Pensions/Retirement	315,404	36,829	19,938	14,383	386,553
Loan Repayments	1,125,684	9,462	9,441	10,398	1,154,984
Trade Creditors	3,327,885	197,150	147,398	243,730	3,916,163
Auditor-General	117,292	29,549	32,809	21,018	200,668
Other	2,323,626	86,236	97,388	134,697	2,641,947
Total	16,396,024	2,191,783	2,276,425	2,965,628	23,829,859
2015/2016					
Bulk Electricity	2,610,222	2,898,602	3,095,238	3,592,303	12,196,365
Bulk Water	1,599,809	1,789,607	1,634,105	1,912,639	6,936,161
PAYE Deductions	12,720	23,994	13,225	20,315	70,253
VAT (output less input)	-	-	-	-	-
Pensions/Retirement	32,114	52,167	38,149	99,634	222,064
Loan Repayments	3,454	3,877	3,439	55,987	66,757
Trade Creditors	367,729	348,609	350,959	447,744	1,515,041
Auditor-General	23,947	45,085	20,507	17,430	106,969
Other	70,849	194,783	214,305	492,109	972,046

Total	4,720,844	5,356,723	5,369,927	6,638,162	22,085,656
2016/2017					
Bulk Electricity	4,166,002	4,677,145	4,869,057	5,270,157	18,982,360
Bulk Water	2,133,662	2,227,189	2,275,871	2,579,831	9,216,553
PAYE Deductions	25,152	49,037	47,193	57,824	179,206
VAT (output less input)	-	-	-	-	-
Pensions/Retirement	96,337	99,548	90,951	119,347	406,183
Loan Repayments	5,209	4,961	5,138	3,623	18,931
Trade Creditors	511,482	447,167	318,860	322,461	1,599,970
Auditor-General	25,762	52,336	41,825	33,420	153,342
Other	175,169	181,526	279,939	291,931	928,566
Total	7,138,774	7,738,909	7,928,834	8,678,594	31,485,111

(Source: National Treasury, RSA, 2017c).

In the light of the data stated in Table 5.1 from National Treasury Local Government Database 2014-2017 it was observed that in each financial year from 2014 to 2017, of the total amounts owed to all groups of creditors, the trade creditors formed the third-largest owed creditor group (National Treasury, RSA, 2015e; 2016a; 2017c). There was also a perceived rapid increase in terms of the total amounts owed to creditors in each quarter of the 2015-2017 financial years. For instance, the total amount owed to creditors in the first quarter of 2015/2016 increased from R4,7 million to R5,3 million in the second quarter and to R6,6 million in the fourth quarter. The same trend was recorded in the first, second and fourth quarters of 2016 /2017. The total amount of unpaid invoices older than 30 days regressed from R22 million in 2015/2016 to R31 million in the 2016/2017 financial year. These municipal creditors incorporate township and rural SMMEs, youth and women-owned SMMEs. This means that the growth potential of these creditors has been stalled, contributing to study by Dzansi and Tassin (2014:106), when they mention that the current high failure rate of SMMEs often occurs between three to five years after establishment, which is a clear indication of the need to the support-procurement management practice of the municipalities.

The municipality requires money to obtain the services of personnel and equipment with which to provide services, and to pay for the services rendered to it by other institutions and individuals. These monies may be withdrawn from National Revenue Fund as stated in Section 213(1) of the *Constitution* (RSA, 1996). Section 214(1) of the *Constitution* (RSA, 1996) provides that an Act of Parliament must provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government. This Act may be enacted only after the provincial governments, organised local government and the Financial and Fiscal Commission have been consulted, and any recommendations of the Commission have been considered. It must take into account, amongst others, the need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them.

Thornhill and Cloete (2014:135) are of the view that municipalities use funds from their revenue account to procure goods, services and capital assets through tendering processes. As a result, huge amounts of money are involved. Municipalities are lawfully permitted to award contracts to suppliers and clearly state payment terms within the legal stipulations as contained in Section 65 of the MFMA (RSA, 2003). This legal requirement provides that the accounting officer of the

municipality must take all reasonable steps to ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

On the other hand, the South African government indicated its commitment to using SMMEs to grow the economy and create jobs. Nevertheless, failure of its institutions, including municipalities, to meet the payment obligations timeously can best be described as being counter-productive to the National Development Plan and the New Growth Path, since the government is dependent on the SMME suppliers to create employment and to contribute towards the country's revenue streams DPLG LED Framework (RSA, 2015:4).

In order to determine whether Free State municipalities comply with Section 65(e) of the MFMA (RSA, 2003), which requires all contractual obligations and money owed to be settled within 30 days of receiving a valid invoice, the creditors record of municipalities need to be investigated, and the amounts owed to suppliers be consolidated per province and thereafter compared to that of other provinces. Unless there is an alternative agreement on the other categories of expenditure, in relation to other provinces. Therefore, the next section outlines the outstanding monies owed to creditors of Free State municipalities in the financial years 2014-2017.

5.5 OUTSTANDING PAYMENT TO CREDITORS OF FREE STATE MUNICIPALITIES OVER 2014-2015, 2015-2016, 2016-2017 FISCAL YEARS.

This section indicates the outstanding monies owed to creditors of the Free State municipalities over the financial years 2014-2017. This secondary data was extracted from National Treasury (RSA, 2017c). Secondary data refer to information collected by individuals or agencies and institutions other than the researcher. Bless *et al.* (2014:57) aver that secondary data include data that a researcher may use to collect from other sources and to answer a particular research question. In this regard, the information involves the outstanding payment to creditors of the Free State municipalities from 2014-2017, which was extracted from the National Treasury Local Government Database of 2014-2017. It is made up of the population of forty-four (44) districts and two-hundred-and-five (205) local municipalities, totalling two-hundred-and-fifty-seven (249) municipalities and eight metropolitan municipalities in the nine provinces of South Africa, a total of 257 municipalities (National Treasury, RSA, 2015e; 2016a; 2017c).

The information is part of the In-year Management, Monitoring and Reporting System for Local Government (IYM), which enables provincial and national government to exercise oversight over municipalities, particularly with the implementation of municipal budgets and conditional grants with a view to providing support in terms of late and non-payment of suppliers amongst others.

In-year reporting is a tool that facilitates transparency, better in-year management as well as the oversight of budgets, which should assist municipalities with early warning regarding imminent cash flow crises, which will affect payment of suppliers and other creditors within 30 days. This makes these reports management tools and early warning mechanisms for Councils, provincial legislatures and officials in order to monitor and improve municipal performance. However, based on the reports, municipalities are not improving in terms of late payment to suppliers, which clearly indicates the need to develop the framework for the management of suppliers as part of procurement management practices.

Below is the status of the creditors of the 257 municipalities made up of district and local municipalities. Table 5.2 below provides a quarterly comparative age analysis of the amount owed by the Free State Municipalities to Bulk Electricity Suppliers in the financial years 2014 to 2017.

Table 5.2 The quarterly comparative age analysis of the amount owed by the Free State Municipalities to Bulk Electricity Supplier in the financial years 2014 to 2017

Bulk Electricity	0-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total
2014 2015					
1st Quarter	4,626,673	485,216	382,047	829,706	6,323,642
2nd Quarter	142,559	91,435	182,563	497,241	913,799
3rd Quarter	152,177	24,893	85,101	731,197	993,367
4th Quarter	635,339	92,488	93,229	572,286	1,393,342
Total	5,556,748	694,031	742,940	2,630,430	9,624,149
2015/2016					
1st Quarter	281,361	233,453	157,257	1,938,151	2,610,222
2nd Quarter	279,713	123,044	145,954	2,349,891	2,898,602
3rd Quarter	256,495	74,581	277,144	2,487,019	3,095,238
4th Quarter	461,996	109,120	143,726	2,877,460	3,592,303
Total	1,279,565	540,198	724,081	9,652,521	12,196,365
2016/2017					
1st Quarter	867,408	170,896	272,706	2,854,992	4,166,002
2nd Quarter	398,510	83,343	178,553	4,016,739	4,677,145
3rd Quarter	300,318	96,046	123,446	4,349,248	4,869,057
4th Quarter	322,587	119,093	175,132	4,653,344	5,270,157
Total	1,888,822	469,378	749,837	15,874,323	18,982,360

(Source: National Treasury, RSA, 2014c, 2015e, 2016b, 2017c).

The municipalities in the Free State reported the total amount of R9,6 billion that have not been paid to bulk electricity creditors at the end of 2014/2015. At the end of the fourth quarter of the financial year 2014/ 2015, Trade Creditors in the 61-90 category were owed a total amount of R742, 940 million, which escalated to R9, 652, 521 billion during the same period of 2015 /2016. The R9 billion was almost doubled in the same period of 2016/2017, where suppliers were owed R15, 874, 323 billion. These amounts include interest on non-payment of invoices. Municipalities' failure to settle invoices within 30 days of receiving a valid invoice from bulk electricity suppliers has a negative impact on SMMEs and residents who could end up paying more due to electricity cuts instituted by suppliers. In Chapter 1.9.1 of this study it was mentioned that the Auditor-General reported that most of the municipalities in the Free State Province fell behind with their payment for bulk purchases of electricity and water to Eskom by R2,5 billion and water boards by R2,5 billion, which were outstanding on 30 June 2017 (AGSA, RSA, 2017:52). Table 5.3 below provides a quarterly comparative age analysis of the amount owed by the Free State Municipalities to Bulk Water Suppliers in the financial years 2014 to 2017.

Table 5.3 The quarterly comparative age analysis of the amount owed by the Free State Municipalities to Bulk Water Suppliers in the financial years 2014 to 2017

Bulk Water	0 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
2014/2015					
1st Quarter	979,784	89,860	134,035	1,423,020	2,626,699
2nd Quarter	35,203	46,848	38,150	736,013	856,215
3rd Quarter	40,508	45,246	44,872	821,564	952,191
4th Quarter	97,238	43,191	72,222	871,282	1,083,931
Total	1,152,733	225,144	289,280	3,851,880	5,519,036
2015/2016					
1st Quarter	76,676	48,525	39,503	1,435,105	1,599,809
2nd Quarter	62,266	52,607	65,371	1,609,363	1,789,607
3rd Quarter	64,718	59,981	43,133	1,466,273	1,634,105
4th Quarter	108,375	105,695	67,177	1,631,392	1,912,639
Total	312,034	266,808	215,185	6,142,133	6,936,161
2016/2017					
1st Quarter	65,186	57,285	53,481	1,957,709	2,133,662
2nd Quarter	117,923	66,472	73,839	1,968,956	2,227,189
3rd Quarter	124,316	112,208	74,055	1,965,293	2,275,871
4th Quarter	126,889	119,171	92,507	2,241,264	2,579,831

(Source: National Treasury, RSA, 2014c, 2015e, 2016b, 2017c).

The municipalities in the Free State reported a total amount of R5,5 billion that have not been paid to Bulk Water creditors at the end of 2014/2015.

During the financial year 2014/2015, Trade Creditors of bulk water were owed a total amount of R5, 519, 036, which escalated to R6, 936, 161 at the end of 2015/2016 and further increased to R9 21, 553 in the fourth quarter of 2016 /2017. The late and non-payment of invoices were spoken against by Minister Jeff Radebe in the National Assembly of November 2016 (RSA, 2016) by stating that the deliberate late payment to suppliers by government institutions, including municipalities, weakens SMMEs, strains the relationships, weakens the economy and the government aims stated in the National Development Plan to create 11 million jobs by 2030. Notwithstanding the words from the Minister, the late and non-payment of suppliers and other creditors still persist.

Table 5.4 The quarterly comparative age analysis of the amount owed by the Free State Municipalities to Bulk Water Suppliers in the financial years 2014 to 2017

Trade Creditors	0 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
2014/2015					
1st Quarter	2,301,727	303,198	157,816	565,144	3,327,885
2nd Quarter	44,788	21,422	25,303	105,637	197,150
3rd Quarter	58,369	28,237	4,477	56,316	147,398
4th Quarter	100,186	16,072	36,968	90,505	243,730
Total	2,505,069	368,929	224,563	817,602	3,916,163
2015/2016					
1st Quarter	102,604	29,216	9,708	226,202	367,729
2nd Quarter	87,147	37,608	22,761	201,093	348,609
3rd Quarter	102,334	27,698	12,036	208,891	350,959
4th Quarter	177,828	47,827	29,786	192,303	447,744
Total	469,913	142,349	74,290	828,489	1,515,041
2016/2017					
1st Quarter	159,444	56,060	16,799	279,179	511,482
2nd Quarter	127,075	48,030	26,371	245,691	447,167
3rd Quarter	92,058	36,501	29,242	161,059	318,860
4th Quarter	121,259	41,262	22,851	137,089	322,461
Total	499,836	181,853	95,263	823,018	1,599,970

(Source: National Treasury, RSA, 2014c, 2015e, 2016b, 2017c).

During the financial year 2014/2015, Trade Creditors in the 61–90 category were owed an amount of R224 million, which escalated to R817million within 30 days. This means goods, services and works with an amount of R817 million were owed to suppliers of Free State municipalities during that period. In the financial year 2015/2016, the amount of R828 million remained unpaid in the category of amounts owed above 90 days. This amount increased by R11 million, compared to the amount owed to suppliers within the same duration in the previous year, 2014/2015. The above values highlight the need for implementation of effective municipal procurement practices, which will assist with prompt payment of suppliers. Table 5.5 below illustrates the comparison of the Creditors Age Analysis of the district municipalities of the Free State Province for the first quarter of the financial year 2016/2017.

Table 5.5 Comparison of the Creditors Age Analysis of the District Municipalities of the Free State Province for the first quarter of the financial year 2016/2017

				0 -	31 -	61 -	91 -	121 -	151 -	181 Days -	Over 1	Total
				30 Days	60 Days	90 Days	120 Days	150 Days	180 Days	1 Year	Year	-
District : Fezile Dabi (DC20)												
Fezile Dabi	DC20	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	9 Other	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	10 Total	0	0	0	0	0	0	0	0	0
District : Lejweleputswa (DC18)												
Lejweleputswa	DC18	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	7 Trade Creditors	702	100,0	0	0	0	0	0	0	702 100,0
Lejweleputswa	DC18	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	9 Other	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	10 Total	702	100,0	0	0	0	0	0	0	702 100,0
District : Thabo Mofutsanyana (DC19)												
Thabo Mofutsanyana	DC19	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	3 PAYE deductions	899	100,0	0	0	0	0	0	0	899 5,5
Thabo Mofutsanyana	DC19	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	7 Trade Creditors	285	1,9	13	,1	0	0	0	15 049	98,1 15 348 94,0
Thabo Mofutsanyana	DC19	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	9 Other	77	100,0	0	0	0	0	0	0	77 ,5
Thabo Mofutsanyana	DC19	L	10 Total	1 262	7,7	13	,1	0	0	0	15 049	92,2 16 324 100,0
District : Xhariep (DC16)												
Xhariep	DC16	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	9 Other	533	18,7	72	2,5	1 982	69,5	0	128	4,5 94 3,3 2 851 100,0
Xhariep	DC16	L	10 Total	533	18,7	72	2,5	1 982	69,5	0	128	4,5 94 3,3 2 851 100,0

(Source: National Treasury, RSA, 2016b, 2017c).

Table 5.5 above shows that in the first quarter of 2016/2017, the Thabo Mofutsanyana and Xhariep district municipalities had the highest outstanding amount owed to creditors at R16 324 000 and R2 851 000, respectively, whereas Lejweleputswa had the least outstanding amount at R702 000 and Fezile Dabi recorded R0.00. The amount owed by Thabo Mofutsanayana and Xhariep have been outstanding for more than a year. According to Chetty (2015:160), the Thabo Mofutsanyana and Xhariep districts are the most poverty-stricken districts in the Free State Province, compared to other districts in the province. Chetty (2015:160) further provides that in order to be sustainable and viable, the municipalities need to increase their investments, as required by the 12 government priorities and the role of local government (National Treasury, RSA, 2011a:19). The National Treasury (RSA, 2011a:16) further states that the government's national fiscal policy continues to recognise that municipal expenditure including procurement from SMMEs makes a significant contribution towards alleviating poverty and improving socio-economic development. Thus, municipalities should ensure prompt payment of invoices to SMME suppliers. Table 5.6 below indicates the second quarter of 2016/2017 amounts owed to creditors.

Table 5.6 Comparison of the Creditors Age Analysis of the District Municipalities of the Free State Province for the second quarter of the financial year 2016/2017

Creditors Age Analysis (F10)				0 -	31 -	61 -	91 -	121 -	151 -	181 Days -	Over 1	Total
				30 Days	60 Days	90 Days	120 Days	150 Days	180 Days	1 Year	Year	-
District : Fezile Dabi (DC20)												
Fezile Dabi	DC20	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	9 Other	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	10 Total	0	0	0	0	0	0	0	0	0
District : Lejweleputswa (DC18)												
Lejweleputswa	DC18	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	7 Trade Creditors	367	100,0	0	0	0	0	0	0	367 100,0
Lejweleputswa	DC18	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	9 Other	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	10 Total	367	100,0	0	0	0	0	0	0	367 100,0
Thabo Mofutsanyana	DC19	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	3 PAYE deductions	885	100,0	0	0	0	0	0	0	885 9,0
Thabo Mofutsanyana	DC19	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	7 Trade Creditors	242	2,7	2 480	28,1	6 095	69,1	0	0	8 818 90,1
Thabo Mofutsanyana	DC19	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	9 Other	81	100,0	0	0	0	0	0	0	81 ,8
Thabo Mofutsanyana	DC19	L	10 Total	1 208	12,4	2 480	25,3	6 095	62,3	0	0	9 784 100,0
District : Xhariep (DC16)												
Xhariep	DC16	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	8 Auditor General	1 248	69,8	539	30,2	0	0	0	0	1 786 46,0
Xhariep	DC16	L	9 Other	452	21,6	103	4,9	264	12,6	72	3,4	165 7,9 1 037 49,5 2 093 54,0
Xhariep	DC16	L	10 Total	1 700	43,8	642	16,5	264	6,8	72	1,9	165 4,2 1 037 26,7 3 880 100,0

(Source: National Treasury, RSA, 2016b, 2017c).

Table 5.6 above shows that in the second quarter of 2016/2017, Thabo Mofutsanyana and Xhariep district municipalities still recorded the highest outstanding amount owed to creditors at R9 784 000 and R3 880 000, respectively, whereas Lejweleputswa had the least outstanding amount at R367 000 and Fezile Dabi recorded R0.00. Thabo Mofutsanyana improved the payment cycle from one year in the first quarter to 61–90 days in the second quarter, whereas Xhariep still owed creditors for more than a year and has increased the total amount owed. Lejweleputswa have reduced the amounts owed to creditors in the second quarter of 2016/2017 and has maintained the payment cycle of 0–30 days. This could be attributed to the MEC for Finance’s campaign of ensuring that Free State municipalities get a clean audit. It was mentioned in Chapter 1.9.1 of this study that the Auditor-General reported that the main contributors to irregular expenditure in the province were Matjhabeng (R327 billion), Tokologo (R57 million), and Letsemeng (R26 million) (AGSA, RSA, 2017:52). The Auditor-General further states that the most common instances of irregular expenditure in Free State municipalities were related to competitive bids not being invited, bid adjudication committees not being composed properly and the use of contracts secured by other organs of state without meeting the requirements of National Treasury (RSA, 2005b) (AGSA, RSA, 2017:52). Table 5.7 below illustrates the comparison of the Creditors Age Analysis of the district municipalities of the Free State Province for the third quarter of the financial year 2016/2017.

Table 5.7 Comparison of the Creditors Age Analysis of the District Municipalities of the Free State Province for the third quarter of the financial year 2016/2017

Creditors Age Analysis (F10)				0 -	31 -	61 -	91 -	121 -	151 -	181 Days -	Over 1	Total
				30 Days	60 Days	90 Days	120 Days	150 Days	180 Days	1 Year	Year	-
District : Fezile Dabi (DC20)												
Fezile Dabi	DC20	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	9 Other	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	10 Total	0	0	0	0	0	0	0	0	0
District : Lejweleputswa (DC18)												
Lejweleputswa	DC18	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	7 Trade Creditors	2 149	100,0	0	0	0	0	0	0	2 149 100,0
Lejweleputswa	DC18	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	9 Other	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	10 Total	2 149	100,0	0	0	0	0	0	0	2 149 100,0
District : Thabo Mofutsanyana												
Thabo Mofutsanyana	DC19	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	7 Trade Creditors	283	3,8	9	,1	7 089	96,0	0	0	7 381 100,0
Thabo Mofutsanyana	DC19	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	9 Other	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	10 Total	283	3,8	9	,1	7 089	96,0	0	0	7 381 100,0
District : Xhariep (DC16)												
Xhariep	DC16	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	8 Auditor General	17	1,1	0	1 450	98,9	0	0	0	1 467 34,6
Xhariep	DC16	L	9 Other	400	14,4	256	9,2	383	13,8	70	2,5	1 378 49,6
Xhariep	DC16	L	10 Total	417	9,8	256	6,0	1 833	43,2	70	1,6	2 778 65,4

(Source: National Treasury, RSA, 2016b, 2017c).

Table 5.7 above shows that in the third quarter of 2016/2017 Thabo Mofutsanyana, Xhariep and Lejweleputswa district municipalities have recorded the highest outstanding amount owed to creditors at R7 381 000, R4 245 000 and R2 149 000, respectively and Fezile Dabi recorded R0.00. Thabo Mofutsanyana reduced the amount owed to creditors, but maintained the payment cycle of 61–90 days recorded from the second quarter, whereas Xhariep still increases the amount owed to creditors and the period for outstanding amount is still the same. Lejweleputswa has increased the amounts owed to creditors in the third quarter of 2016/2017 and has maintained the payment cycle of 0–30 days. Table 5.8 below illustrates the comparison of the Creditors Age Analysis of the district municipalities of the Free State Province for the fourth quarter of the financial year 2016/2017.

Table 5.8 Comparison of the Creditors Age Analysis of the District Municipalities of the Free State Province for the fourth quarter of the financial year 2016/2017

Creditors Age Analysis (F10)				0 -	31 -	61 -	91 -	121 -	151 -	181 Days -	Over 1	Total
				30 Days	60 Days	90 Days	120 Days	150 Days	180 Days	1 Year	Year	-
Fezile Dabi	DC20	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	9 Other	0	0	0	0	0	0	0	0	0
Fezile Dabi	DC20	L	10 Total	0	0	0	0	0	0	0	0	0
District : Lejweleputswa (DC18)												
Lejweleputswa	DC18	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	8 Auditor General	0	0	0	0	0	0	0	0	0
Lejweleputswa	DC18	L	9 Other	850	100,0	0	0	0	0	0	0	850 100,0
Lejweleputswa	DC18	L	10 Total	850	100,0	0	0	0	0	0	0	850 100,0
Thabo Mofutsanyana	DC19	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	3 PAYE deductions	935	100,0	0	0	0	0	0	0	935 11,3
Thabo Mofutsanyana	DC19	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Thabo Mofutsanyana	DC19	L	7 Trade Creditors	161	2,5	0	6 140	97,5	0	0	0	6 301 76,0
Thabo Mofutsanyana	DC19	L	8 Auditor General	0	0	0	982	100,0	0	0	0	982 11,8
Thabo Mofutsanyana	DC19	L	9 Other	79	100,0	0	0	0	0	0	0	79 ,9
Thabo Mofutsanyana	DC19	L	10 Total	1 174	14,2	0	7 122	85,8	0	0	0	8 295 100,0
District : Xhariep (DC16)												
Xhariep	DC16	L	1 Bulk Electricity	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	2 Bulk Water	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	3 PAYE deductions	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	4 VAT (output less input)	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	5 Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	6 Loan repayments	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	7 Trade Creditors	0	0	0	0	0	0	0	0	0
Xhariep	DC16	L	8 Auditor General	17	1,6	0	17	1,6	0	1 025	96,8	1 058 32,0
Xhariep	DC16	L	9 Other	185	8,2	63 2,8	63 2,8	176 7,8	360 16,0	62 2,8	0	1 339 59,6 2 248 68,0
Xhariep	DC16	L	10 Total	202	6,1	63 1,9	80 2,4	176 5,3	360 10,9	1 087 32,9	0	1 339 40,5 3 306 100,0

(Source: National Treasury, RSA, 2016b, 2017c).

Table 5.8 above shows that in the fourth quarter of 2016/2017 Thabo Mofutsanyana, Xhariep and Lejweleputswa district municipalities have recorded the highest outstanding amount owed to creditors at R8 295 000, R3 306 000 and R850 000, respectively, and Fezile Dabi recorded R0.00. Thabo Mofutsanyana increased the amount owed to creditors and increased the payment cycle of 91–120 days, whereas Xhariep reduced the amount owed to creditors, but the period for outstanding amount is still the same. Lejweleputswa have decreased the amounts owed to creditors in the fourth quarter of 2016/2017 by R1 299 000 and has maintained the payment cycle of 0–30 days. This poses a real challenge, as it shows that district municipalities lack the framework to work within that will assist with maintaining the good record of paying suppliers within 30 days. Table 5.9 provides the quarterly and yearly comparative analysis of the amount owed by Free State Municipalities to Creditors in relation to other Provinces for the Financial Years 2014–2017.

Table 5.9 Quarterly and yearly comparative analysis of the amount owed by Free State Municipalities to Creditors in relation to other Provinces for the Financial Years 2014 -2017

	EC Total	FS Total	GP Total	KZN Total	LP Total	MP Total	NC Total	NW Total	WC Total	GRAND TOTAL
2016/2017										
1 st Quarter	1,299,117	7,138,774	11,459,583	4,085,014	2,100,978	4,972,556	958,738	1,969,958	614,533	345,992,515.42
2 nd Quarter	1,448,652	7,738,909	11,117,620	3,517,091	2,434,724	4,323,679	1,101,478	1,907,494	694,193	342,838,384.47
3 rd Quarter	1,200,658	7,928,834	11,244,434	3,371,947	1,877,455	4,306,580	706,912	2,551,570	802,913	339,913,023.09
4 th Quarter	1,371,681	8,678,594	16,572,692	4,980,207	1,975,066	5,532,677	1,234,049	2,269,126	1,204,911	438,190,034.71
TOTAL 2016 /2017	5,320,108	31,485,111	50,394,329	15,954,259	8,388,223	19,135,492	4,001,177	8,698,148	3,316,550	1,466,933,957.69
2015 /2016										
1 st quarter	1,477,914.00	4,720,844.00	9,603,979.00	3,360,421.00	1,332,234.00	2,928,710.00	722,406.00	1,660,283.00	556,596.00	263,633,866.94
2 nd quarter	1,482,540.00	5,356,723.00	9,660,619.00	3,509,493.00	1,357,863.00	2,911,368.00	712,648.00	1,799,613.00	647,536.00	274,384,037.36
3 rd quarter	1,233,662.00	5,369,927.00	9,144,884.00	3,708,111.00	1,120,506.00	2,846,273.00	709,575.00	1,635,150.00	502,934.00	262,710,228.62
4 th Quarter	1,615,332.00	6,638,162.00	17,240,299.00	4,769,285.00	1,111,857.00	3,534,947.00	928,075.00	1,916,084.00	1,159,725.00	389,137,651.35
TOTAL 2015/2016	5,809,448.00	22,085,656.00	45,649,781.00	15,347,310.00	4,922,460.00	12,221,298.00	3,072,704.00	7,011,130.00	2,866,791.00	1,189,865,784.27
2014/2015										
1 st Quarter	1,165,143.00	3,234,686.00	8,974,467.00	3,295,756.00	897,214.00	2,604,026.00	468,592.00	1,277,754.00	615,504.00	225,331,427.04
2 nd Quarter	1,284,488.00	3,703,108.00	8,553,478.00	3,361,931.00	1,395,629.00	1,716,066.00	446,053.00	881,716.00	649,674.00	219,921,433.84
3 rd Quarter	1,572,793.00	4,035,077.00	10,041,087.00	3,273,948.00	1,208,023.00	2,500,714.00	471,065.00	1,702,360.00	563,245.00	253,683,118.95
4 th Quarter	1,466,243.00	4,485,167.00	13,275,192.00	5,196,275.00	1,091,814.00	3,603,067.00	541,857.00	1,780,431.00	1,092,460.00	325,325,052.66
TOTAL 2014/2015	5,488,667.00	15,458,038.00	40,844,224.00	15,127,910.00	4,592,680.00	10,423,873.00	1,927,567.00	5,642,261.00	2,920,883.00	1,024,261,032.49

(Source: National Treasury, RSA, 2014c, 2015e, 2016b, 2017c).

As depicted from Table 5.9 above, at the end of 2014/2015, Free State municipalities owed their creditors R15,4 million as reported in the National Treasury (RSA, 2017c). The Free State municipalities are the second province that owes suppliers and other creditors the highest amounts as compared to Gauteng, which has a R40,1 million outstanding, then KwaZulu-Natal at R15,1 million in the third position and Mpumalanga at R10 million in the fourth position. The Free State municipalities reported an increased amount of R22,1 million at the end of the fourth quarter of 2015/2016 and R31,4 at the end of the fourth quarter of 2016/2017. This is an increase of R7 million, compared to the same quarter of 2014/2015. The year-on-year increase in outstanding creditors could be an indication that municipalities need to be assisted with procurement and SCM practices.

5.6 SUMMARY

The chapter dealt with the comparative analysis of municipal procurement practices amongst the creditor groups of the district municipalities of the Free State, and a comparative analysis of the municipal procurement management practices in the Free State, compared to those of other eight provinces in South Africa, using secondary data from the National Treasury, Local Government Database of 2014- 2017 (National Treasury, RSA, 2015e; 2016a; 2017c).

The total amount owed by Free State local and district municipalities to suppliers and other creditor groups such as bulk electricity, bulk water, PAYE deductions, VAT (output less input), pensions/retirement, loan repayments, trade creditors or suppliers and Auditor-General at the end of 2016/2017 financial year amounts to R31 billion. Of the R31 billion, R23 billion is owed to bulk electricity suppliers, R9.2 billion is owed to bulk water suppliers and R1,6 billion is owed to trade creditor, which are made up of SMME suppliers.

The Comparison of the Creditors Age Analysis of the District Municipalities of the Free State Province for the four quarters of the financial year 2016/2017 indicates that the Thabo Mofutsanayana district owes suppliers and other creditors the highest amounts. The amounts were decreased from R16, 324, 000 in the first quarter to R8, 295, 000 in the fourth quarter. These amounts were reduced from the payment cycle of one year and above in the first quarter to 91–120 in the fourth quarter. Xhariep is the second-highest district that owes suppliers with the amount owed increased from R2 851 000 in the first quarter to R3 306 000 in the fourth quarter. The

payment cycle remained at one year. Lejweleputswa owes the suppliers and other creditors the least amounts, compared to the two (Thabo Mofutsanyana, Xhariep) districts. The amounts fluctuated within the quarters, in the first quarter it was recorded as R702 000, R367 000 in the second quarter, R2 149 000 in the third, and R850 000 in the 4th quarter. These amounts were within the payment cycle of 0–30 days in the financial year 2016/2017.

The comparison of the Creditors Age Analysis of the nine provinces of South Africa for the financial year 2014–2015, 2015–2016 and 2016–2017 indicates that Free State municipalities owe the second-highest amount after Gauteng, with an increasing outstanding amount owed to creditors from R15 billion at the end of 2014–2015, R22 billion at the end of 2015–2016 and R31 billion at the end of 2016–2017. Gauteng reported R40 billion at the end of 2014–2015, then R45 billion at the end of 2015–2016 and R50 billion at the end of 2016–2017. The Western Cape recorded R3 billion at the end of 2014–2015, R2 billion at the end of 2015–2016 and R2 billion at the end of 2016–2017. These findings clarify that the perceived impact of the *PPFA* (RSA, 2000) and the *MFMA* (RSA, 2003) on suppliers as part of procurement management practices in district municipalities in the Free State Province is negative due to the huge outstanding amounts owed to suppliers doing business with municipalities. The huge outstanding amounts could be related to ineffective management of suppliers as part of procurement management practices. The chapter emphasised that in-year reporting is a tool that facilitates transparency, better in-year management as well as the oversight of budgets, which should assist municipalities with early warning regarding imminent cash flow crises that which will affect payment of suppliers and other creditors within 30 days. The next chapter contains the research methodology, findings and results of the semi-structured and the structured questionnaire.

CHAPTER SIX: EMPIRICAL RESEARCH: METHODOLOGY FINDINGS AND RESULTS

6.1 INTRODUCTION

In this study, an in-depth literature study and an empirical study were conducted with the aim of achieving the research objective and answering the research problem outlined in Chapter one, 1.8.1 and 1.8.2, respectively. The succeeding Chapters two to four outlined the literature study. As part of the qualitative data collection and data analysis of this study secondary data from the National Treasury Local Government Database 2014-2017 was retrieved to conduct a comparative analysis of municipal procurement practices and the payment of the creditor groups or suppliers of the district municipalities of the Free State, as discussed in Chapter five of this study. Chapter five also provided a comparative analysis of the municipal procurement management practices in the Free State compared to those of the other eight provinces in South Africa, using secondary data from the National Treasury Local Government Database 2014-2017 (National Treasury, RSA, 2015e; 2016a; 2017c).

This chapter focuses on the research methodology and design as well as the findings and results obtained from the empirical research. The chapter further interprets the findings in order to make recommendations, with a view to improving the effective management of suppliers related to municipal public procurement and SCM in municipalities of the Free State Province. Furthermore, this chapter seeks to articulate the processes involved in conducting the research. The aim of this study was to promote effective procurement and SCM practices positively by developing a framework for the management of suppliers as part of public procurement and SCM practices and SCM practices in district municipalities of the Free State Province. The data analysis and interpretation of collected data were performed through statistical processes in order to achieve the research aim and objectives. The research design was outlined in the next section, followed by a discussion of the data analysis and the subsequent empirical findings.

6.2 RESEARCH DESIGN

According to Hussey and Hussey (1997:114), research design is a procedure to guide the research in order to obtain valid findings. The research design is seen by Cooper and Schindler (2003:149) as a general plan or blueprint on how the researcher goes about answering the research questions. This was redefined when Welman *et al.* (2005:52) show that research design is the strategy according to which research respondents are obtained and information collected from them, with a clear description of what needs to be performed with respondents, and the outlined intention of how to reach conclusions about the research. Based on the above views, research design is the step-by-step plan with corresponding effective results.

To achieve the research objectives and answer the research questions as provided in Chapter one, a specific plan on data gathering was required. This was done through a literature study, followed by an empirical study. In order to understand the research problem better, this study followed a pragmatic paradigm or mixed research, based mainly on qualitative research supported by quantitative research. A research design most appropriate to the purpose, techniques and context of the study was therefore developed to answer the research questions of this study. This study applied a descriptive case study research design to answer the research questions of this study. According to Du Plooy-Cilliers *et al.* (2014:178), a case study recounts a real-life situation by describing the specific circumstances of a specific occurrence or trend. A descriptive case study design describes an intervention or phenomenon and the real-life context in which it occurs (Maree *et al.*, 2017:82). Furthermore, Coulthard (2016:44-45) is of the opinion that a descriptive case study design provides multiple sources of qualitative and quantitative evidence that can be triangulated.

Hussey and Hussey (1997:140) describe qualitative methods as a collection of interpretive techniques that seek to describe, translate, interpret and make sense of the meanings of a phenomenon taking place in a social world. Welman *et al.* (2005:193) establish that qualitative research methods are fundamentally descriptive by nature and are used to investigate individuals and groups within a given community. Chetty (2015:168) provides the goal of descriptive methods as being to explain phenomena such as human behaviour in the business and administrative sciences, by indicating how factors and variables are related to one another and in what manner

one variable affects another. Hussey and Hussey (1997:59) further provide that quantitative research employs methods such as experiments, cross-sectional and longitudinal surveys by means of structured questionnaires to obtain information on different variables. Therefore, in this study a semi-structured questionnaire (qualitative) and a structured questionnaire (quantitative) was used to collect data.

6.2.1 Sampling and research population

Welman *et al.* (2005:52) mention that when the research question is investigated, data needs to be collected from the objects of the study in order to solve the problem. Data can be collected from a full set of cases, otherwise known as a population. Salkind (2018:85) explains that a population refers to a group of potential respondents from whom a researcher wants to generalise the results of a study, while a sample refers to a subset of that population. Bless *et al.* (2014:162) define the research population as the entire set of people or objects, the focus of the research study about which the researcher wants to determine some characteristics. Welman *et al.* (2005:52) are of the opinion that the population refers to the study object that consists of individuals, groups, organisations, human products or the conditions to which they are exposed. Welman *et al.* (2005:52) further explain that the research problem relates to a specific population that encompasses the total collection of all units of analysis about which the researcher wants to make a specific conclusion. A sample or sampling is defined by Bless *et al.* (2014:162) as a subset of the whole population whose characteristics will be generalised to the entire population.

As the main objective of this study was to develop a framework for the management of suppliers as part of public procurement and SCM practices in the district municipalities of the Free State Province, the population comprised the municipal management (municipal officials) and suppliers doing business with the four district municipalities of the Free State Province.

Taking into consideration the Welman *et al.* (2005:55) observation that it can be impractical and uneconomical to involve all members of the population in a research study, it was important for the researcher to rely on the data obtained from a sample of the population based on the assumption of assigning the results of the small group to the larger group (Chetty, 2015:170). Due to the impracticality of obtaining data from the full set of cases, the researcher's target population was composed of the selected municipal management (officials). This consists of municipal managers

(MMs), chief financial officers (CFOs) and heads of SCM of the four Free State Province district municipalities, as well as ten suppliers contracted to these district municipalities. Hussey and Hussey (1997:144) refer to sampling as a small group being made up of some members of a target population. Neuman (2003:210) describes sampling as gaining a representative or small collection of units or cases from a much larger collection of units or cases from a portion of a population, so that the researcher can study the smaller group and produce accurate generalisations about the larger group.

Welman *et al.* (2005:56-57) identify two types of sampling, namely probability and non-probability samples. For the purposes of employing a probability sample, the choice can be made between simple random samples, stratified random samples, systematic samples and cluster samples, whereby it can be determined that any member of the population can form part of the sample. With non-probability sampling, some members have no chance of being selected, hence the examples are known as accidental or incidental samples, quota samples, purposive samples, snowball samples, self-selection samples and convenience samples. Brynard and Hanekom (2006:57) define the probability random sampling method is one whereby everyone in the entire target population has an equal chance of being selected. Furthermore, Welman *et al.* (2008:59) maintain that in the case of simple random sampling, each member of the population has the same chance of being included in the sample, and each sample of a particular size has the same probability of being chosen. Du Plooy-Cilliers *et al.* (2014:142-143) explain that purposive sampling as a non-probability sampling method may be used to purposefully choose the sample based on a set list that has the same characteristics, such as suppliers doing business with district municipalities in the Free State Province.

For the purpose of this study, the researcher employed purposive sampling as a non-probability sampling method to select ten suppliers contracted to each district municipality and one affiliated local municipality of the Free State Province. The samples of suppliers were selected from the list of suppliers that have been doing business with each district municipality since the financial year 2014/2015. The researcher could not retrieve the suppliers from the CSD, since the district municipalities started using the CSD in July 2016, whereas the researcher needed data regarding late payment of suppliers from 2014 to 2017.

Thereafter, as part of the probability sampling methods, simple random sampling was used to select the municipal management (officials) from the MMs, CFOs and heads of SCM of the four district municipalities and one affiliated local municipality of the Free State Province.

The Free State Provincial Treasury municipal district directors were contacted prior to handing out the structured questionnaires at their respective municipalities. Each district director indicated that some district municipalities in the Free State did not procure anything due to a decreased budget for goods and services. It was indicated in Chapter one of this study that the research population was the four district municipalities of the Free State Province. Based on the above explanation, however, the researcher decided to increase the sample of respondents by randomly selecting one local municipality affiliated to each district municipality.

The following district municipalities and one local municipality for each district in the Free State Province were randomly selected to form part of the sample:

- Lejweleputswa District Municipality
 - Tswelopele Local Municipality
- Thabo Mofutsanyana District Municipality
 - Setsoto Local Municipality
- Xhariep District Municipality
 - Mohokare Local Municipality
- Fezile Dabi District Municipality
 - Moqhaka Local Municipality

As a result, a sample size of 40 suppliers contracted to each district and one local municipality was drawn, and 40 semi-structured questionnaires were handed out to these suppliers, with 25 responses received. Therefore, 62.5% of the suppliers responded to the semi-structured questionnaire. Although 62.5% is not the ideal number of responses, it was still above 60%, which seems sufficient to extract data from for the qualitative part of this study. As mentioned in Chapter one of this study there are no rules for sample size in qualitative studies (Maree *et al.*, 2017:84).

Maree *et al.* (2017:84) further point out that 15 is the smallest acceptable sample size in qualitative research. Therefore, a sample size of 40 suppliers was seen as acceptable for the study.

The sample size for each of the specific target groups, which consists of four district and one affiliated local municipality (MMs, CFOs and heads of SCM), was randomly drawn and each was emailed letters requesting interviews. None of them responded. Follow-up was done telephonically as well as through email, but still there was no response. The HOD for Provincial Treasury was requested to intervene, but there was no positive response. The Chairperson for the Standing Committee on Public Accounts (SCOPA), Mr Neels van Rooyen at the Free State Legislature, was requested to assist, since most of the municipalities had audit findings on SCM-related matters. As a result, the researcher was invited to attend each municipality's audit finding hearing meeting with SCOPA and the Auditor-General. It was during these meetings that the researcher was able to outline the intention of the research and to issue the structured questionnaires. The municipal management target group, which consisted of MMs and CFOs and heads of SCM at each meeting, requested to answer the structured questionnaires independently. Although the researcher initially had difficulty scheduling interviews with the selected municipal management to elicit information as explained above, the researcher managed to hand out a total of 24 structured questionnaires to the specific target group. This comprised the relevant MMs, CFOs and heads of SCM of the districts, and the one municipality affiliated to each district municipality, with 20 responses received. Therefore, responses to the structured questionnaire were received back from 83.3% of the specific target group of municipal management respondents, and that was deemed suitable to extract data from. As a result, no interviews took place in this study.

6.2.2 Research instrument

The severity of the problem under investigation required that data be collected using the two research instruments: a structured questionnaire (see Annexure D and E) to collect data from the selected municipal officials, and a semi-structured questionnaire (see Annexure D) for extracting data from the selected suppliers. This will assist in contributing to the aim of the research as advised by Saunders *et al.* (2009:395), mentioned in the previous chapter of this study.

According to Hussey and Hussey (1997:140), research instruments are questionnaires and interview schedules. A questionnaire is a list of carefully structured or unstructured questions,

chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample. Chetty (2015:171) further provides that respondents answer these questionnaires independently.

Two sets of self-administered questionnaires, one structured and one semi-structured, both comprised of open and closed-ended questions were considered suitable, given the seriousness and urgency of the challenges of late payment of suppliers in the district and local municipalities of the Free State Province. A self-administrated semi-structured questionnaire was used to elicit information from selected suppliers doing business with each of the four district municipalities and one affiliated local municipality of the Free State Province, to determine the perceived impact of late payment of suppliers by municipalities of the Free State Province. A self-administered structured questionnaire was used to collected data concerning SCM practices, tools, legislation and the management of suppliers to verify the depth of the identified factors, to draw conclusions and not to make any comparisons between the manner in which the different groups answered the questions of the quantitative instrument. Both instruments comprised open and closed-ended questions. A five-point Likert scale was used (strongly agree, agree, don't know, disagree and strongly disagree) as explained by Hussey and Hussey (1997:171).

The selection or combination of the two instruments should take into consideration if there were issues contained in the instrument that the respondents may feel reluctant to discuss with the researcher during an interview, such as the non-payment of suppliers on time, which has an adverse effect on businesses and the economy, while at the same time resulting in inflated prices as suppliers transfer the cost of late non-payment to the government (National Treasury, RSA, 2016d:8). Again, the fact that the researcher works at the Free State Provincial Treasury is viewed by other officials from implementing departments of both provincial and local governments as being for the purposes of monitoring, exposing and reporting. Therefore, the decision to make use of a self-administered semi-structured questionnaire and a self-administered structured questionnaire was viewed as the best option as it ensures anonymity.

The following steps were taken to reach respondents. The heads of the SCM Unit of the four district municipalities were requested to hand the semi-structured questionnaires to the selected contracted suppliers who have been doing business with the municipality since 2010. Thereafter, the second batch of five semi-structured questionnaires for each affiliated local municipality was handed to

the selected suppliers that the municipalities are contracted with. These questionnaires were accompanied by three letters handed to each municipal management and supplier. The first letter explained the title of this study, a short introduction of the researcher, the time needed to complete the questionnaire and the assurance that the completion of the questionnaire is completely voluntary (see Annexure A and C). The other two formal letters were signed by Mr MNG Mahlatsi, Head of Department: Free State Provincial Treasury, giving the researcher consent to conduct research at district municipalities of the Free State. A further letter was by Professor T. van Niekerk, Head of Department: Government Management: Central University of Technology, acknowledging that the researcher is a registered doctoral student at CUT (see Annexure B). The Free State Provincial Treasury municipal directors assisted with the list of all municipalities in the Free State Province from which contact details of heads of SCM were drawn. They were called first to confirm that they had received their questionnaires from MM and CFO, and thereafter to clarify the need for completion of the municipal management questionnaire and the handing over of the suppliers' semi-structured questionnaire to the contracted suppliers. Due to the busy work schedule of MMs and CFOs, the researcher collected the completed questionnaires per district from each municipality at the time all questionnaires were available.

As mentioned in Section 6.2.1 of this chapter the researcher could not include the suppliers from the CSD, since the district municipalities started using the CSD in July 2016, whereas the researcher needed data regarding late payment of suppliers from 2014 to 2017. Completed questionnaires were saved for coding and analysis by an experienced statistician.

6.2.3 Literature review

Trafford and Leshem (2008:68) agree with Welman *et al.* (2005:38) in summarising literature as a body of knowledge on a certain subject matter of interest to the researcher. Hussey and Hussey (1997:111) define a literature review as a written summary of the findings of a literature search, which demonstrates that the body of knowledge has been thoroughly engaged with in order to gain a clear understanding and clear insight on previous research.

A comprehensive descriptive approach was applied in answering the research questions for this study. The following literature was used as part of the literature study, namely SCM and public procurement management, municipal financial management related to payment of service

providers and debt management, related legislative framework, acts, regulations and policies, government reports, journal articles, books, conference papers, and internet sources. As part of a document analysis, secondary data from the Free State Provincial Government Database 2015-2017 was retrieved to conduct an analysis of the Free State municipalities budget and debt management, as discussed in Chapter four of this study. Secondary data from the National Treasury Local Government Database 2014-2017 was also retrieved, in order to conduct a comparative analysis of municipal procurement practices and the payment of the creditor groups or suppliers of the district municipalities of the Free State, as discussed in Chapter five of this study. An analysis of international and national SCM and procurement management models and frameworks were retrieved and presented in Chapter two as part of the comprehensive descriptive approach of this study.

6.2.4 Validity

Bless *et al.* (2014:221) define no measurement technique as perfect; hence, it is important that a researcher evaluate the measures they use, which is the purpose of reliability and validity. The following section discusses how validity was ensured in this study. Welman *et al.* (2005:142) propose what Hussey and Hussey (1997:57) emphasise as validity, that the outcomes of the study must accurately declare what is happening in the given situation. Welman *et al.* (2005:142) further state that validity is all about determining whether the findings reflect what was measured. Bless *et al.* (2014: 230-233) provide various ways of measuring whether the research instrument accurately represents the outcomes. The following are the different ways in which the validity of research can be assessed.

6.2.4.1 Content and face validity

Bless *et al.* (2014:230) view a questionnaire with high content validity as looking at different components holistically without neglecting any component. No component must be left out. Maree *et al.* (2017:240) maintain that content validity refers to the extent to which the research instrument covers the complete content of the particular construct that it is set out to measure. One could argue that in the context of procurement and SCM the instrument should cover all aspects of SCM. The researcher achieved content validity of the questionnaires by consulting Free State Provincial Treasury municipal district directors whom the researcher regards as experts in SCM

and municipal financial matters. This assisted in ensuring the content validity of the research instruments.

Hussey and Hussey (1997:58) state that face validity may be viewed as ensuring that the tests or measures used by the researcher do in fact measure or represent what they are supposed to measure or represent. Bless *et al.* (2014: 233) further maintain that face validity focuses on the way the instrument appears to the participant. If the instrument is too simplistic, a participant will not take the research seriously, or if the instruments appears to be too difficult, respondents could give up before they begin completing the instrument. For the purpose of this study, the Free State Provincial Treasury municipal district directors, who can be seen as experts in the field of municipal financial management and SCM, assisted to ensure the face validity of both the instruments. Apart from this, a pilot study was conducted, as explained in Chapter one, to ensure the content validity of the instruments.

6.2.4.2 Construct validity

According to Bless *et al.* (2014:233), with construct validity the researcher must ensure that the measurement technique is closely linked with known theory in the area of research, and with other related concepts. Bless *et al.* (2014:233) further state that where there are close links between the instrument and the related theory, one could argue that the research instrument has high construct validity. If the links between the instrument and the related theory are weak or non-existent, one could argue that the instrument has low construct validity. To ensure construct validity of the research instruments, the researcher made sure that the questions asked were aligned with the requirements and provisions of relevant procurement and SCM frameworks, regulations, policies, and theories. Both research instruments were evaluated by the Free State Provincial Treasury municipal district directors, who can be seen as experts in the field of municipal financial management and SCM, to ensure that the instruments were aligned with relevant SCM frameworks, regulations, policies and theories.

6.2.4.2 Internal and external validity

Maree *et al.* (2016:169) explain that internal validity entails sufficient control over variables. Internal validity refers to the question of whether the research method or design will answer the

researcher's question, meaning there must be no errors in design of the research and the research method must be able to assist a researcher in answering the research question.

Maree *et al.* (2016:169) aver that external validity refers to the degree to which results can be generalised to the entire population. In this study, the researcher is confident that the conclusions are valid, not only to the district municipalities of the Free State Province, but to all South African municipalities, since the challenge of late payment of suppliers is reported by the National Treasury as a national challenge (National Treasury, RSA, 2016d:8). A quantitative-research process generally uses what is termed a *pilot validity*. A pilot study, in simple terms, is a process of pre-testing the research instrument for reliability and validity. For the purpose of this study, a pilot study was conducted to ensure the validity of both instruments. The following experts in SCM took part in the pilot study: the Chief Executive Officer of the Provincial Treasury, the General Manager of the SCM Unit of the Mangaung Metropolitan Municipality and three SCM experts from the Free State Provincial Treasury.

6.2.5 Trustworthiness in qualitative and mixed-method studies

Reliability and validity of data can be acquired through the concept of trustworthiness based on four thoughts, namely credibility, dependability, transferability and confirmability (Bless *et al.*, 2014:236-237).

The thought of credibility is viewed by Maree *et al.* (2016:123) as the accuracy with which the researcher interprets the data provided by the respondents. In Chapter one it was mentioned that Bless *et al.* (2014: 234-235) are of the opinion that credibility corresponds with internal validity. The thought of confirmability is viewed by Maree *et al.* (2016:125) as referring to how well the data collected supports the findings and interpretation of the researcher. The thought of transferability relates to the ability of the findings to be applied to a similar situation and to deliver similar results (Maree *et al.*, 2016:123-124). Bless *et al.* (2014:237) argue that transferability has similar characteristics to external validity, which requires that a pilot study must be conducted. It was mentioned previously that a pilot study was conducted to ensure the validity of both instruments. Dependability, according to Maree *et al.* (2016:123-124), refers to how well the process of integration takes place between the data collection methods, the data analysis and the theory generated from the data.

Another method to increase trustworthiness is triangulation. According to Bless *et al.* (2014:238-241) triangulation is a method often used to verify and increase the trustworthiness of qualitative research. However, Bless *et al.* (2014:241) further argue that one of the particular strengths of mixed-method research is that methodological triangulation is built into every mixed method study. Methodological triangulation requires that different methods of data collection are used, and the findings are compared with each other to increase the trustworthiness of the data and findings. In this way the data from in-depth interviews might be compared with data from direct observations. According to Olivier (2017:10) triangulation can also be used to determine whether there was convergent validity between the qualitative and quantitative findings. Salkind (2018:107) points out that when the findings of different data collection methods are compared, any relationship observed has to be the result of what they share in common in the analysis of the construct, which refers to convergent validity because the methods converge upon one another. Maree *et al.* (2017:42) concur that triangulation is also often used in facilitating interpretive validity. It requires that conclusions based on qualitative sources are supported by a quantitative perspective. For the purpose of this study methodological triangulation was used to compare the findings of similar items/questions of the semi-structured and structured questionnaire. Table 6.36 illustrates a comparison (methodological triangulation) between the qualitative and quantitative findings used in this study.

6.2.6 Reliability (Cronbach's Alpha)

According to Bless *et al.* (2014:221), no measurement technique is perfect; hence, its reliability needs to be evaluated. Reliability entails acknowledging that for any measuring instrument to be seen as reliable, results have to be consistent whenever they are repeated (Welman *et al.*, 2005:145; Bless *et al.*, 2014:222). Maree *et al.* (2016:238) maintain that the reliability of an instrument means that if the same instrument is used at different times or administered to different respondents from the same population, the findings should be the same. This study utilised mainly qualitative methods, such as the comprehensive literature study and a semi-structured questionnaire, supported by quantitative methods like the structured questionnaire, to collect data with a view to ensuring consistent results.

Bless *et al.* (2014:222-223) explain that when using measuring instruments such as semi-structured and structured questionnaires, as employed in this study, reliability may be estimated using a test-retest method whereby the same measurement procedure is applied to the same group of people on two or more occasions. Bless *et al.* (2014:223) emphasise that outcomes of low test-retest reliability will never be consistent, unless the researcher can use the same people twice to test the procedure. Obtaining the same people twice, however, poses problems that may influence respondents, such as history, maturation and reactivity, in which case the tool may not be reliable. Equivalent-form reliability is another technique that is used to estimate reliability, and is sometimes termed *parallel-form reliability*. This technique requires that instead of providing the same test to the same set of subjects on two or more occasions, the researcher needs to develop two questionnaires of the same design. The researcher did not employ this method to test reliability, based on the advice from Bless *et al.* (2014:226), who view this method as time consuming, and may drain the resources of the researcher.

Bless *et al.* (2014: 227) have found that when the scores for the various items are inter-related, it is said that the internal consistency will be high. Internal consistency is another standard technique utilised to estimate reliability, by employing split-halves reliability and item analysis. Split-halves reliability split one test into two halves to try to find the extent of reliability between the halves. Reliability is confirmed when the respondents respond the same, and the tool is said to have high internal consistency. The researcher did not employ this method to test reliability because it may be time consuming for respondents such as suppliers and municipal management. Item analysis is another method suggested by Bless *et al.* (2014:228-229) to estimate internal consistency of an instrument. Mouton (2005:243) advises that the concept of anonymity should be used instead of face-to-face interviews, to increase reliability of scores; hence, the researcher utilised questionnaires to collect data from two groups of respondents.

Chetty (2015:175) explains that the scale of the Cronbach's alpha reliability test ranges from 0 to 1. Scores that are close to 1 indicate the instrument has high reliability, while scores close to 0 indicate that the reliability of the instrument (questionnaire) is very low. According to Gliem and Gliem (2003) the guidelines for the interpretation of Cronbach's alpha coefficient have been suggested and the following scale seems generally accepted by researchers:

- 0.90 – high reliability
- 0.80- moderate or good reliability
- 0.70 – acceptable reliability
- 0.5 – poor reliability
- 0.4 – unacceptable reliability

For this study, seven items from Section D of the semi-structured questionnaire were used to achieve internal reliability and consistency. The reliability of the Cronbach’s alpha (α) coefficient of the semi-structured questionnaire was 0.61, which is between poor and acceptable reliability, but above the scale of unacceptable reliability. The one exception to this was item three (Item 4.3 on the semi-structured questionnaire), which would increase the alpha to $\alpha = 0.67$. As such, removal of this item could be considered. Item three was removed as discussed in Section 6.5.4 of this study. Table 6.1 below outlines the Cronbach’s alpha (α) coefficient of the semi-structured questionnaire. In Section 6.5.4 concerning the discussion about the findings of the data analysis of the semi-structured questionnaire, the results of the Cronbach’s alpha (α) reliability test were further outlined.

Table 6.1: Cronbach’s Alpha (α) coefficient of the semi-structured questionnaire

Semi- Structured (Section D) - Cronbach Coefficient Alpha with Deleted Variable					
Deleted Variable	Raw Variables		Standardised Variables		Label
	Correlation with Total	Alpha	Correlation with Total	Alpha	
newQ4_1	0.501974	0.516480	0.495059	0.514291	
Q4_2	0.144904	0.633966	0.154676	0.629021	Q4_2
Q4_3	0.000000	0.673690	0.002869	0.673962	Q4_3
Q4_4	0.126524	0.633313	0.114310	0.641329	Q4_4
newQ4_5	0.518898	0.503665	0.517940	0.505843	

Semi- Structured (Section D) - Cronbach Coefficient Alpha with Deleted Variable					
Deleted Variable	Raw Variables		Standardised Variables		Label
	Correlation with Total	Alpha	Correlation with Total	Alpha	
newQ4_6	0.505832	0.504917	0.513646	0.507436	
newQ4_7	0.568735	0.482551	0.569782	0.486342	

Apart from the above, a total of 52 items of the structured questionnaire were used to achieve internal reliability and consistency. The Cronbach's alpha (α) for the structured questionnaire was 0.849242, above the scale for moderate or good reliability, which is acceptable for this study. Only one item/question (question 3.5) on the structured questionnaire was removed as discussed in Section 6.7.2 of this chapter, which had an unacceptable internal consistency of 0.40. In Section 6.6 in the discussion about the findings of the data analysis of the structured questionnaire the results of the Cronbach's alpha (α) reliability test were further outlined. Table 6.2 below provides the results of the Cronbach's alpha (α) reliability test of the 52 items of the structured questionnaire.

Table 6.2: Cronbach’s alpha (α) coefficient of the structured questionnaire

Structured questionnaire - Cronbach Coefficient Alpha with Deleted Variable					
Deleted Variable	Raw Variables		Standardised Variables		Label
	Correlation with Total	Alpha	Correlation with Total	Alpha	
Q2_1	0.319895	0.846124	.	.	Q2_1
Q2_2	0.347767	0.845614	.	.	Q2_2
Q2_3	0.347767	0.845614	.	.	Q2_3
Q2_4	0.347767	0.845614	.	.	Q2_4
Q2_5	0.347767	0.845614	.	.	Q2_5
Q2_6	0.347767	0.845614	.	.	Q2_6
newQ3_1	0.262141	0.847300	.	.	
Q3_2	0.548967	0.841789	.	.	Q3_2
Q3_3	0.288183	0.846743	.	.	Q3_3
newQ3_4	0.228572	0.848420	.	.	
Q3_5	0.262722	0.847229	.	.	Q3_5
Q3_6	0.445260	0.845002	.	.	Q3_6
Q3_7	.	0.849569	.	0.857410	Q3_7
newQ4_1	0.347702	0.845648	.	.	
newQ4_2	0.286767	0.846788	.	.	
Q4_3	0.250716	0.847439	.	.	Q4_3
Q4_4	0.437659	0.843543	.	.	Q4_4
Q4_5	0.336755	0.845752	.	.	Q4_5
newQ4_6	0.399511	0.844158	.	.	
Q5_1	0.077712	0.851162	.	.	Q5_1

Structured questionnaire - Cronbach Coefficient Alpha with Deleted Variable					
Deleted Variable	Raw Variables		Standardised Variables		Label
	Correlation with Total	Alpha	Correlation with Total	Alpha	
Q5_2	0.228338	0.848014	.	.	Q5_2
newQ5_3	0.100227	0.849546	.	.	
Q5_4	0.042379	0.851021	.	.	Q5_4
Q5_5	0.507544	0.843352	.	.	Q5_5
newQ6_1	0.299983	0.846754	.	.	
Q6_2	0.351785	0.845339	.	.	Q6_2
Q6_3	0.598594	0.840976	.	.	Q6_3
newQ6_4	0.115177	0.850364	.	.	
Q6_5	0.131749	0.849803	.	.	Q6_5
newQ6_6	0.189807	0.848745	.	.	
newQ7_1	0.235174	0.847731	.	.	
Q7_2	0.174984	0.849094	.	.	Q7_2
Q7_3	0.199959	0.848231	.	.	Q7_3
Q7_4	0.048866	0.851503	.	.	Q7_4
newQ7_5	0.027301	0.851594	.	.	
Q8_1	0.450391	0.842807	.	.	Q8_1
Q8_2	0.380226	0.845169	.	.	Q8_2
Q8_3	0.088452	0.850263	.	.	Q8_3
Q8_4	0.510203	0.840887	.	.	Q8_4
Q8_5	0.330524	0.845926	.	.	Q8_5
Q9_1	0.277123	0.846982	.	.	Q9_1

Structured questionnaire - Cronbach Coefficient Alpha with Deleted Variable					
Deleted Variable	Raw Variables		Standardised Variables		Label
	Correlation with Total	Alpha	Correlation with Total	Alpha	
Q9_2	0.242901	0.847910	.	.	Q9_2
Q9_3	0.547244	0.843383	.	.	Q9_3
Q9_4	0.574594	0.842757	.	.	Q9_4
Q9_5	0.491107	0.843814	.	.	Q9_5
Q9_6	0.105767	0.852019	.	.	Q9_6
Q10_1	0.230233	0.847922	.	.	Q10_1
Q10_2	0.596737	0.842819	.	.	Q10_2
Q10_3	0.198427	0.848441	.	.	Q10_3
Q10_4	0.051289	0.850933	.	.	Q10_4
Q10_5	0.434588	0.843298	.	.	Q10_5
Q10_6	0.332816	0.845789	.	.	Q10_6

6.2.7 Data analysis

As mentioned in Section 1.14.2 of Chapter one of this study, a comprehensive descriptive approach was applied in this study by answering the research questions for this study. Therefore, as part of the document analysis (qualitative data analysis) of this study, secondary data from the Free State Provincial Government Database 2015-2017 was retrieved to conduct an analysis of the Free State municipalities budget and debt management, as discussed in Chapter four of this study. Secondary data from the National Treasury Local Government Database 2014-2017 was also retrieved to conduct a comparative analysis of municipal procurement practices and the payment of the creditor groups or suppliers of the district municipalities of the Free State, as discussed in Chapter five of this study.

In this study, the researcher was assisted by an experienced statistician in qualitative and quantitative research methodologies. The statistician helped the researcher to develop the questionnaires, to conduct the Cronbach's alpha (α) reliability test, and provided guidance in collating, interpreting and analysing the results from the data collection instruments. The data analysis was based on descriptive analysis of data of both instruments, while an inferential analysis of the structured questionnaire was conducted.

According to Welman *et al.* (2005:231-232), descriptive statistics are concerned with the description or summary of the data obtained for a group of individual units of analysis. Various descriptive statistics were used to portray the findings of the semi-structured questionnaire. Simple graphs, bar charts, tables and percentages were used so that data could be viewed from different perspectives, to enable anomalies to be identified and pursued. Bless *et al.* (2014:348) clearly provides that descriptive statistics may be used on qualitative data, such as in the case of a semi-structured questionnaire, as long as no inferential statistic is used.

Apart from descriptive statistics, inferential statistics was used to portray the findings of the structured questionnaire. On the one hand, descriptive statistics are used to describe a sample's characteristics. On the other hand, inferential statistics are used to infer something about the population from which the sample was drawn, based on the characteristics of the sample (Salkind 2018:144). In this study the t-Test for independent means was used to investigate the effect of experience concerning SCM (independent variable) on all SCM practices (dependent variables), where the mean score of the SCM practice items were compared for the independent groups. A significant (α) of 0.5 was used. Salkind (2018:149) explains that the t-Test for independent means is a commonly used inferential test of the significance of the difference between two means based tests on two independent, unrelated groups.

There were significant differences from the mean score with only two items/questions of the structured questionnaire as indicated in Table 6.21 and Table 6.35 and discussed in Section 6.7.4.1 and Section 6.12.2 of the study.

The data was prepared and entered for computer analysis using Microsoft Excel spreadsheets, and strict quality control ensured that the results were based on accurately captured data. The Excel document was imported into SAS Version 9.2 where it was coded in preparation for data analysis.

6.3 FRAMEWORK FOR DATA ANALYSIS

In the sections below, the researcher presents results drawn from two sets of questionnaires. The first one is the self-administered, semi-structured questionnaire handed to MMs and CFOs to give to heads of SCM, for distribution to the selected suppliers doing business with district municipalities and the one affiliated local municipality of each district in the Free State Province, as explained above in Section 6.2.1. The self-administered semi-structured questionnaire consisted of four sections: Section A had six questions, focusing on respondents' biographical information; there were six questions in Section B concentrating on the company profile; Section C's focus was on the payment challenges that took place in the last five years. Lastly, Section D concentrated on the effects of late payment. The second questionnaire was the self-administered structured questionnaire handed to MMs, CFOs and heads of SCM of district municipalities and one local municipality affiliated to each district municipality.

The self-administered structured questionnaire was divided into the following sections:

- Section A: Respondent biographical information with ten questions;
- Section B: SCM with subsections, Demand Management with seven questions, Acquisition Management with eight questions, Logistics Management with six questions, Disposal Management with five questions;
- Section C: Financial Management with seven questions;
- Section D: SCM Practices and Tools with five questions;
- Section E: Municipal SCM Legislation & Policy with seven questions;
- Section F: Service Delivery with six questions; and
- Section G: General Questions with six questions.

The empirical research findings are outlined below.

6.4 EMPIRICAL RESEARCH FINDINGS AND RESULTS

This section provides an interpretation of the results of the empirical findings of the study. The findings must be aligned with the research objectives. According to Proctor (2000:273), both the

data analysis and interpretation must be carried out properly in order to ensure the success of the study. Bless *et al.* (2014:150) observe that no measurement technique in social science is perfect; hence, it is important that researchers always evaluate the measures that they use. The sections below provide an explanation of the contents of the data analysis and interpretations. In this regard, the analysis and interpretation of the data contribute to the development of the proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province.

6.5 RESULTS AND ANALYSIS RELATING TO THE SEMI-STRUCTURED QUESTIONNAIRE COMPLETED BY SELECTED SUPPLIERS OF FOUR DISTRICT MUNICIPALITIES AND ONE LOCAL MUNICIPALITY AFFILIATED TO EACH DISTRICT MUNICIPALITY IN THE FREE STATE PROVINCE

The supplier semi-structured questionnaire was designed to investigate the perceptions of suppliers regarding late payment practices.

6.5.1 Section A: Biographical information of suppliers

This section contains the results of the 25 suppliers' biographical information, which includes each supplier's ethnic group, gender, disability, home language, age, and level of education. The tables and figures report on the frequencies and percentages for each variable.

6.5.1.1 Ethnic group

Figure 6.1 below describes the ethnicity of the suppliers. One respondent did not complete this question and the percentages are calculated for the 24 completed responses. It is acknowledged that 75.0% of the suppliers are African, followed by Coloured and White each accounting for 12.5%, in line with the ethnic groups in the Free State Province population as recorded in Census 2011, which shows that the dominant ethnic group in this province is African (75.0%). The second-largest ethnic group found in the Free State Province comprises White people (12.5%), followed by Coloured (12.5%) and lastly Asian (0.5%).

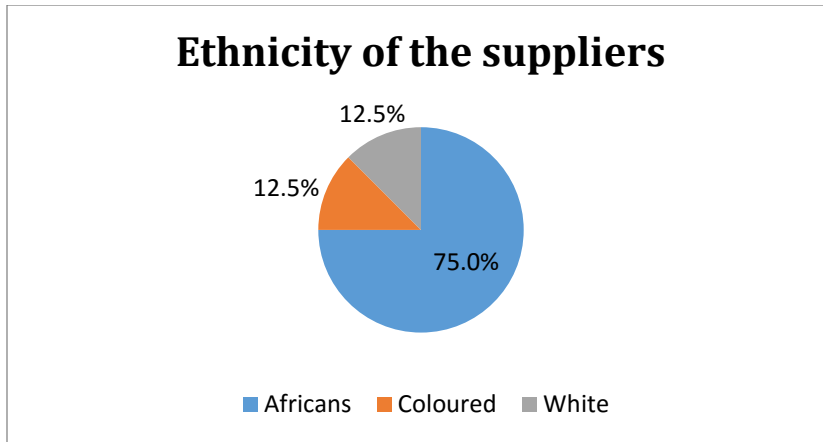


Figure 6.1: Ethnicity of the suppliers (n = 24)

6.5.1.2 Gender

Figure 6.2 illustrates the gender of the suppliers. A majority of 84% of the suppliers were males and 16% females. However, the gender of the Free State Province population as stated in Census 2011 are females representing 51.6% of the total population, whereas the male population is at 48.4%. In addition, Chapter 2.5.5 and Section 2.5.7 of this study state that in terms of the *PPPFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003), government must provide economic opportunities to previously disadvantaged groups, particularly small-medium suppliers doing business with government. The *BBBEEA* (RSA, 2003) provides that the extent to which black women own and manage existing and new enterprises and their involvement in economic activities must increase. Thus it can be argued that the lower number of female respondents could mean that the municipal management does not implement *PPPFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003) effectively by awarding contracts to persons disadvantaged by unfair discrimination based on gender.

Although the researcher considered gender when selecting the sample from the above table and from Figure 6.2 below, it is clear that the majority of the suppliers to municipalities were males.

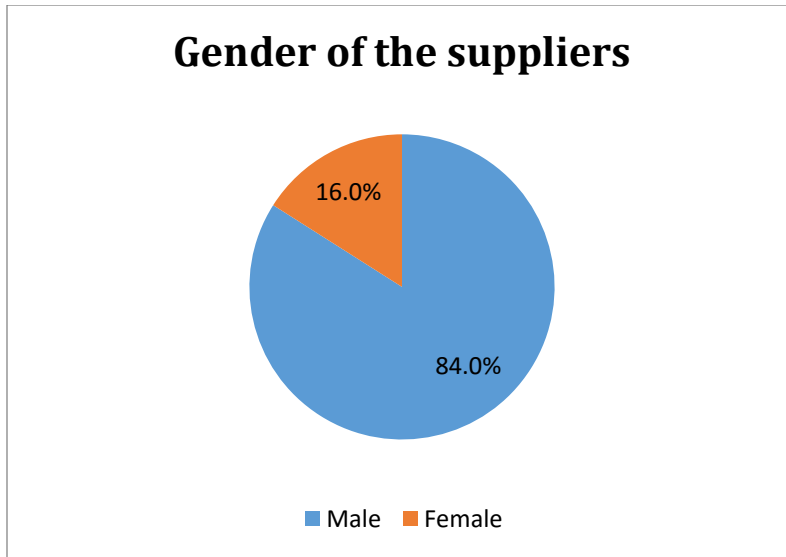


Figure 6.2: Gender of the suppliers (n = 25)

6.5.1.3 Disability

Out of the total number of suppliers, 96% confirmed that they were without disability, whereas one supplier (4%) out of the total number of 25 respondents was disabled. As discussed in Chapter two, Section 2.5.5 and Section 2.5.7 of this study, the *PPPFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003), the government must provide economic opportunities to previously disadvantaged groups, including disabled SMME people doing business with government. This municipal procurement management practice clearly indicates the slow implementation of *PPPFA* (RSA, 2000). The aim of this question was to establish the level of implementation of *PPPFA* (RSA, 2000) in terms of the number of disabled suppliers.

As indicated in Figure 6.3 below, the majority of the respondents were not disabled, while only 4% of the suppliers to the municipalities were disabled.

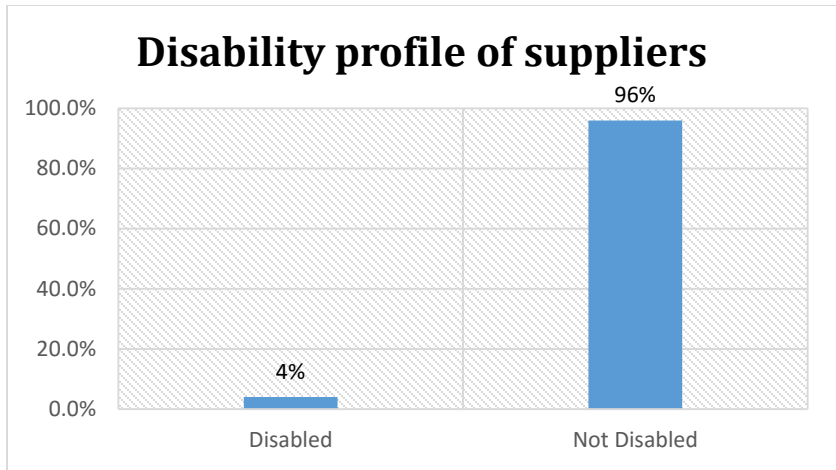


Figure 6.3: Disability profile of suppliers (n = 25)

In Chapter two of this study, it was emphasised that the *PPPFA* (RSA, 2000) provides that organs of state must implement procurement policies wherein preferential points systems are clearly stated and followed as contracts are concluded. In order to give effect to its aims, Section 2(i)(d) of the *PPPFA* (RSA, 2000) provides that certain points will be allocated to tenderers who were historically disadvantaged by unfair discrimination based on race, gender and disability. It can be argued that the lower number of disabled suppliers could mean that the municipal management does not implement *PPPFA* (RSA, 2000) effectively by entering into contracts with disabled people.

6.5.1.4 Home language

Figure 6.4 below illustrates that the majority of the suppliers are Sesotho speaking (48%), followed by Afrikaans speaking (5%) and isiXhosa speaking (5%), with the remainder speaking Setswana, English and isiZulu at 4% each. The above percentages of home language spoken by suppliers are found to be fairly similar to Free State Province demographic profile as recorded in Census 2011, which discloses that the dominating languages in this province are Sesotho (63%), followed by Afrikaans (13%), isiXhosa (7%), Setswana (5%), isiZulu (4%) and English (3%).

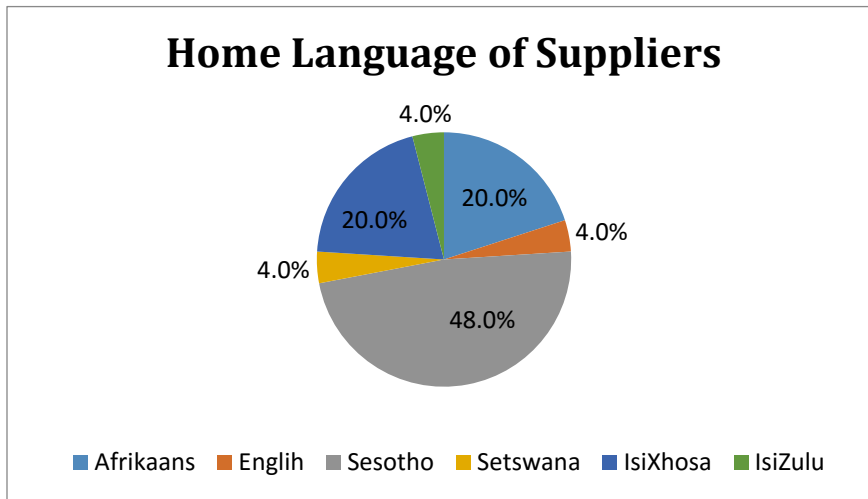


Figure 6.4: Home Language of Suppliers (n = 25)

6.5.1.5 Age group

Figure 6.5 below illustrates that the largest age group of suppliers was between the ages of 30 and 39 years (56%). In total, 28% of suppliers were between 40 and 49 years, whereas 12% were between 50 and 59 years. The smallest group of suppliers was between age group 20 and 29 (4%). This indicates that the majority of respondents are younger than 39 years.

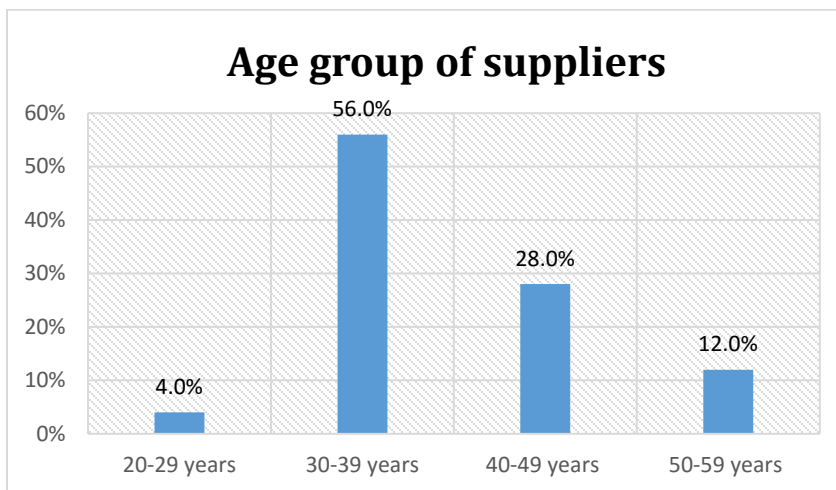


Figure 6.5: Age group of the suppliers (n = 25)

6.5.1.6 Level of education

Figure 6.6 below illustrates the level of literacy of the suppliers is acceptable, since all had some level of education. In particular, 4% have primary education, 14% have secondary education; 32% have a certificate; 28% obtained a diploma; 16% obtained a degree and 8% have a postgraduate qualification. Since all the respondents have some level of education, one would assume that they did not struggle to answer the self-administered semi-structured questionnaire. The intention of the questionnaire was to ascertain the literacy level of respondents.

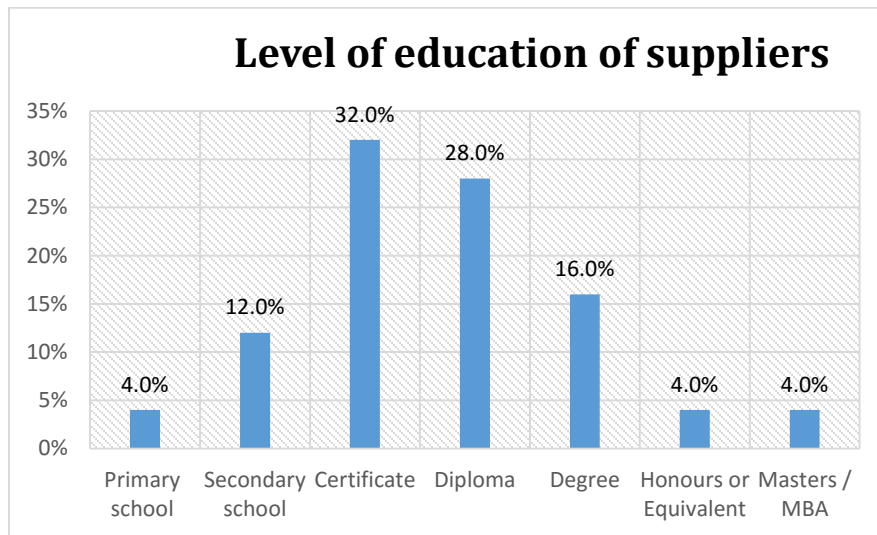


Figure 6.6: Level of education of suppliers (n = 25)

From the above it is clear that only 4% of the suppliers indicated that their highest level of education is primary school. The majority of the respondents have either a certificate or a diploma qualification.

6.5.1.7 Summary of the interpretations of Section A: Biographical information

The objective of asking for suppliers' biographical information is to collect and understand the suppliers' preferences. The results obtained from a biographical information analysis of the respondents are discussed below (ethnicity, gender, disability, home language, age and highest level of education). In summary, the biographical information of the suppliers doing business with municipalities in the Free State can be summarised as the majority being African (75%) and male (84%). Almost none of these suppliers have disabilities (4%). Most of the suppliers are Sesotho

speaking (48%), between the ages of 30 and 39 years (56%), with some form of secondary education or certificate (44%). Knowledge of the ethnicity of the suppliers that government is doing business with is crucial, as the government was mandated to award business to historically disadvantaged individuals, namely Black people, women and disabled people. In relation to the ethnicity distribution of the respondents, the majority (75%) of the suppliers who completed the questionnaire are Africans, while 12.5% are White and 12.5% are Coloured. The finding indicates that municipalities award contracts based on the criteria stated in *PPPFA* (RSA, 2000), namely that previously disadvantaged individuals must be awarded contracts. Although *PPPFA* (RSA, 2000) is implemented, it does not achieve the intended results of changing the socio-economic conditions of the lives of those being awarded contracts. This is due to findings stated in Section 6.5.3 of this study relating to suppliers' challenges, which states that 48% of the suppliers that responded to the questionnaire experienced late and non-payment in the last five years. Half (50%) of the suppliers' invoices were paid beyond the stipulated time of 30 days and waited 31–60 days before receiving their payment. 25% of the suppliers spent more than six hours a week pursuing late payments. The majority (50%) are currently owed between R100 000 and R500 000, and 34% of suppliers have written off outstanding amounts of between R10 001 up to R500 000. It is therefore critical to develop a framework for management of suppliers as part of procurement practices in the district municipalities of the Free State Province.

In relation to the gender of the respondents, of the 100% that completed the questionnaire, 84% are male and the remaining 16% are female suppliers. Enquiring the gender of the suppliers is crucial to this study to ensure that the intentions of *PPPFA* (RSA, 2000) of awarding business to females is achieved. The finding indicates that male suppliers were in the majority, whilst female respondents were represented the least. This could indicate that experience was used as a criterion for selection of the suppliers for most of the procurement at municipalities. As a result, males received more tenders than women, meaning businesses owned by women need to be assisted in relation to skills, experience and capacity in order to be awarded more contracts of certain commodities, services and goods that require technical skills. In Chapter two, Section 2.5.9 of this study, it was mentioned that a study carried out in Mangaung by the Institute for Community Driven Development (2005:4) reports that there are more male SMMEs (70%) than females (30%) in the area. It can be argued that the lower number of female suppliers could mean that municipal

management does not implement the *PPFFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003) effectively by awarding contracts to persons disadvantaged by unfair discrimination based on gender.

Disability as a criterion for awarding contracts to bidders in the municipalities is important. Only one supplier out of twenty-five (25) suppliers who responded to this questionnaire was disabled. This could mean that disability is not used as a criterion to award contracts or that there are few disabled suppliers with the required skills, capacity and knowledge of the commodities needed by municipalities. Awarding business to people with disability should not be done as a matter of achieving compliance, but with understanding the seriousness about redressing past imbalances of people with disabilities who are triple (race, gender and disability) affected. Legislation such as *PPFFA* (RSA, 2000) needs to be utilised to assist people with disability to reap the full benefits of government policy of redressing past imbalances.

Age plays an essential role in awarding contracts to suppliers. The majority (56%) of the suppliers who completed the questionnaire who rendered services, goods and construction work required by district and selected municipalities of the Free State Province fell in the age group 30–39 years. This could further indicate that these suppliers are amongst suppliers stated in Section 6.5.2.2 of this study, which make up 20% of the businesses that have been in existence for less than five years. For these suppliers to be assisted to grow to achieve established business status, one could argue that it would be important to develop the proposed framework for management of suppliers as part of procurement and SCM practices in the district municipalities in the Free State.

The role of advanced education in any sector of society is important for development. Level of education is not a requirement for receiving preferential procurement points but plays an important role in enabling suppliers to better manage their businesses. Only one respondent indicated a primary education; three respondents indicated secondary education, with approximately 16 respondents holding tertiary certificates. Skilled and knowledgeable suppliers will be in a better position to face the many challenges in running a business and ensuring that their businesses are flourishing.

6.5.2 Section B: Company profile of suppliers

This section contains the results of the 25 suppliers’ business type, the year in which the business started, the number of years the company has been doing business with municipalities, the total number of employees employed in the business, the business annual income in the past three years, and the total amount of loans the business has taken within the last three years.

6.5.2.1 The type of business the suppliers operate

The majority of the suppliers operate their business as a close corporation (52%), followed by private company (36%), sole traders (8%) and lastly cooperatives (4%), as seen in Figure 6.7 below. The literature show that a close corporation is inexpensive to set up and the business members’ personal assets are kept separate from those of the close corporation (CC). This could be the reason there are more CC respondents than any other business type.

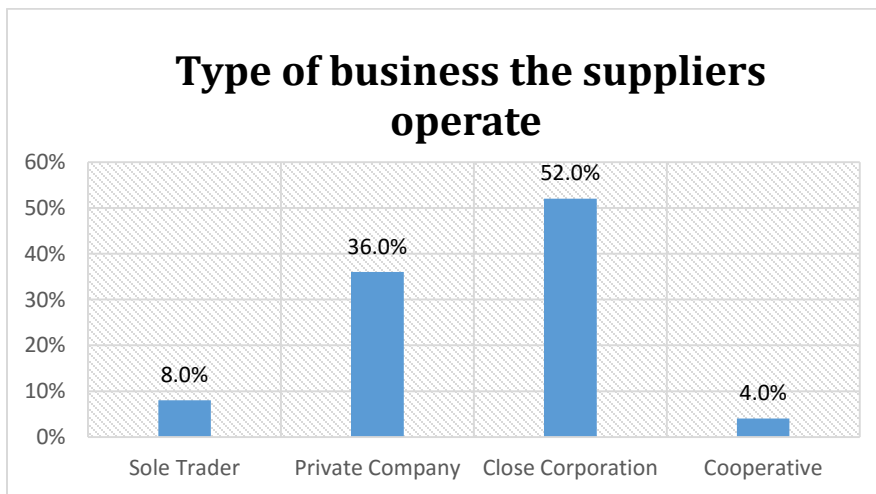


Figure 6.7: The type of business the suppliers operate (n = 25)

6.5.2.2 Number of years the supplier is in business

In order to calculate the number of years a supplier is in business, the respondents indicated the year in which their business was started. From this date, the total numbers of years the business has been in operation could be calculated. The number of years was summarised in the following categories: one to five years, six to ten years, 11–25 years and more than 25 years. Figure 6.8 below shows that in 20% of the cases the businesses have been in existence for less than five years, 48% from six years up to ten years, whereas 20% were in business for up to 25 years, and a small

amount of 8% were in business for more than 25 years. In one case (4%), the respondent did not respond to the question.

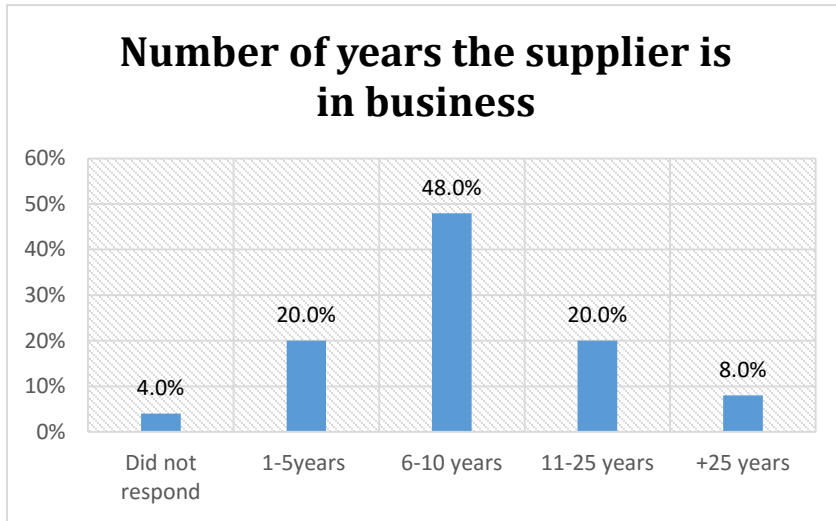


Figure 6.8: Number of years the supplier is in business (n = 25)

6.5.2.3 Number of years the supplier is in business with municipalities

Figure 6.9 below shows that 56% of the suppliers have been doing business with Free State municipalities for less than five years, with 20% at between five and ten years, 12% at between 11 and 20 years, and the remainder of 12% had being doing business with the municipalities for more than 20 years. The results indicate that the majority of the respondents doing business with municipalities are still at an infant stage, and need to be developed to become established companies able to participate in the mainstream economy.

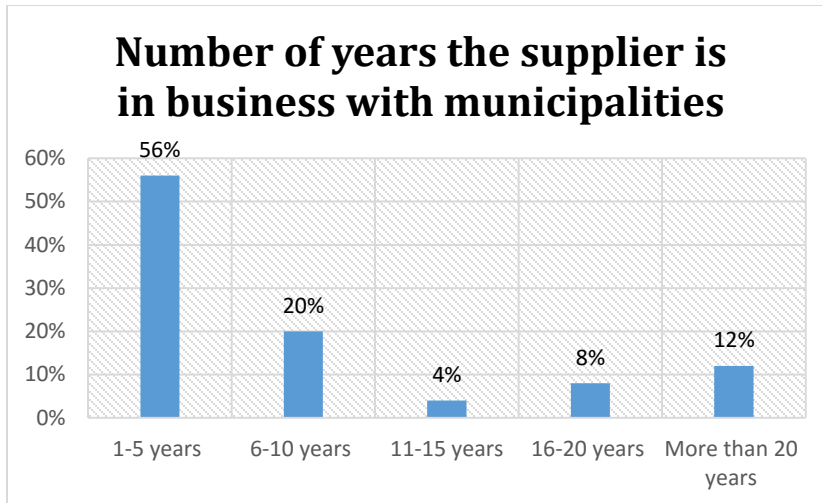


Figure 6.9: Number of years the supplier is in business with municipalities (n = 25)

From Figure 6.9 above it is clear that the majority of the respondents (76%) have less than ten years' experience doing business with municipalities, while only 20% of the respondents have more than 16 years' experience as a supplier.

6.5.2.4 Number of employees employed in the suppliers' business

The results stated in Figure 6.10 below indicate that all suppliers who do business with district municipalities and one of the affiliates of the district municipality in the Free State have employed workers in their businesses. The largest number of suppliers (44%) employ between one and five employees, 16% of supplier's employ between six and ten employees, 12% of respondent's employ between 11 and 15 employees, whereas 4% of supplier's employ between 16 and 20 employees. Lastly, 24% of the suppliers employ more than 20 employees.

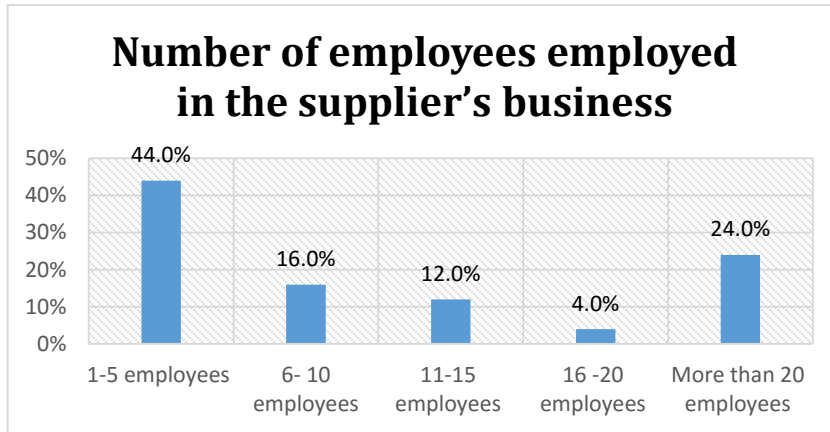


Figure: 6.10: Number of employees employed in the suppliers' business (n = 25)

From Figure 6.10 above it is clear that the majority (76%) of the total number of suppliers do not employ more than 20 employees. One could argue that the suppliers' businesses are not growing due to the late or non-payment of their invoices by municipalities.

6.5.2.5 Annual business income of the suppliers

The results in Figure 6.11 below indicate that 36% of the suppliers have a combined annual income less than R500 000, whereas 28% of suppliers have an income between R500 000 and R1million, and 20% have an income between R1 million and R5 million. Lastly, 16% of suppliers have an annual income of more than R5 million. As indicated in Chapter two, Section 2.5.5 of this study, the *PPPFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003) classify suppliers according to the level of income earned, whereby enterprises that earn an annual income from R0 up to R5 million are classified as EME SMMEs, and the enterprises that earn from R5 million up to R35 million are categorised as QSE SMMEs. According to this, all respondents doing business with district and one affiliate of district municipalities in the Free State are SMMEs, where 84% of the suppliers can be categorised as EME SMMEs and only 16% can be categorised as QSE SMMEs.

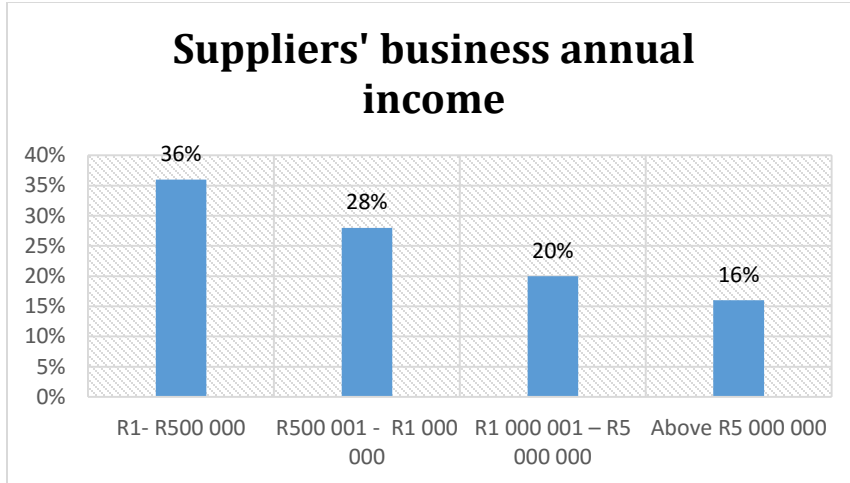


Figure 6.11: Annual business income of the suppliers (n = 25)

6.5.2.6 Loans the supplier took in the past three years

Figure 6.12 illustrates the results of the total amount of external finance the respondents acquired in the past three years. Almost a third of the suppliers acquired loans to the value of less than R250 000 in the past three years (32%). Approximately another third of the suppliers acquired loans to the value of more than R500 000 in the past three years. It is noted that 36% of the respondents did not answer this question, which could possibly mean that the respondents did not request loans in the past three years.

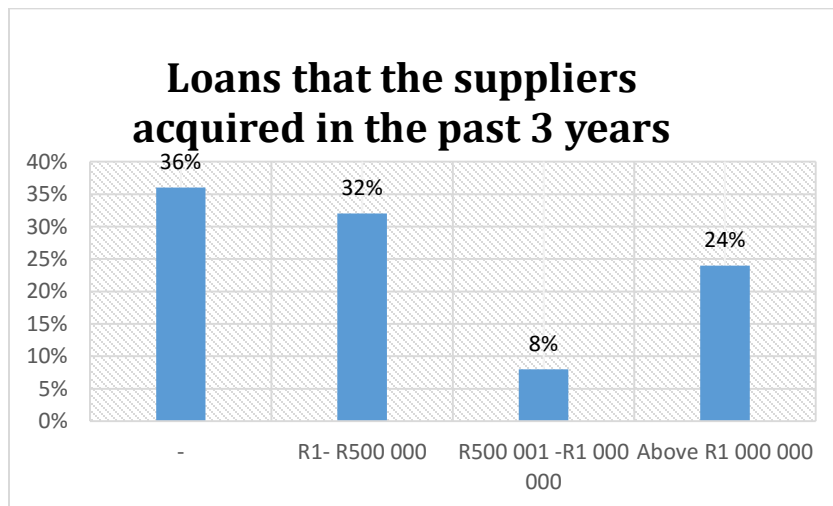


Figure 6.12 Loans that the suppliers acquired in the past three years (n = 25)

From Figure 6.12 it is clear that the majority (64%) of the suppliers dealing with the municipalities acquired loans in the past three years. One could argue that the late or non-payment of the suppliers by the municipalities could have an impact on the suppliers' ability to repay the loan institutions.

6.5.2.7 Summary of the interpretations of Section B: Company profile

The SMME's previous records of accomplishment and experience in their fields are crucial to municipalities in order to be familiar with the suppliers they do business with, and to ascertain whether they will be able to meet the municipalities' requirements. The OCPO brought procurement reforms which resulted in a higher level of business profile requirements, as South African suppliers are now competing nationally and internationally. It is therefore important to know the type of business as well as the strength of the suppliers the municipalities do business with. The National Treasury (RSA, 2017a) requires that municipalities must make use of suppliers such as EME or QSE who have at least a 51% ownership by black people, including those with disabilities, black women and those living in rural or underdeveloped areas or townships. In addition, black youth, black military veterans and cooperatives owned by blacks should be promoted. Before municipalities decide to promote any business type, they must know the number of suppliers available in a certain business type who will compete for the bid or quotation.

Analysis of the data show that there were two sole traders, nine private companies, 13 close corporations and one cooperative in the supplier database. Close corporations (CC) are in the majority (76%). The researcher argues that the latter corresponds with a survey conducted by SEDA, indicating that a close corporation is inexpensive to set up. In addition, the business members' personal assets are kept separate from those of the CC. This could be the reason there are more CC respondents than any other business type.

The year in which the business commenced and the number of years it has been doing business with the municipalities is important to indicate the experience the suppliers acquired with the supplying of goods services and construction. A total of 48% of the suppliers have been in business between six and ten years. The majority (56%) of the suppliers have been doing business with Free State municipalities for less than five years. The results indicate that the majority of the respondents doing business with municipalities are still in an infant stage, and need to be developed to become established companies able to participate in the mainstream economy. In summary, it

was found that suppliers doing business with the district and one affiliated local municipality of the four district municipalities in the Free State are close corporations (52%) and have been in business from six to ten years. The majority of these suppliers (56%) are still in an infant stage. A total 44% of these suppliers have employed one and five employees. 76% of the total number of suppliers do not employ more than 20 employees. The majority (64%) of the suppliers dealing with the municipalities acquired loans in the past three years.

The majority (76%) of respondents do not employ more than 20 employees and, as a result, are considered SMMEs. Most SMMEs are unable to meet the basic objectives of procurement such as to ensure that goods are delivered at the right time, to the right place and of the right quality. One could also argue that these suppliers' businesses do not grow due to the late or non-payment of the suppliers' invoices by municipalities.

Annual income plays a key role when awarding contracts that expect a supplier to have start-up finance. In total, 36% of the suppliers have a combined annual income less than R500 000, whereas 28% of suppliers have an income between R500 000 and R1 million and 20% have an income between R1 million and R5 million. Lastly, 16% of suppliers have an annual income of more than R5 million. As indicated in Chapter two, Section 2.5.5 of this study, the *PPPFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003) classify suppliers according to the level of income earned. Enterprises that earn an annual income from R0 up to R5 million are classified as EME SMMEs, whereas the enterprises that earn from R5 million up to R35 million are categorised as QSE SMMEs. According to this, all respondents doing business with district and one affiliate of district municipalities in the Free State are SMMEs, where 84% of the suppliers can be categorised as EME SMMEs and only 16% can be categorised as QSE SMMEs. The total amount of loans a business has taken within the last three years plays a crucial role. It is noted that 36% of the respondents did not answer this question, which could possibly mean that the respondents did not request loans in the past three years. However, almost a third of the suppliers acquired loans to the value of less than R250 000 in the past three years (32%). Approximately another third of the suppliers acquired loans to the value of more than R500 000 in the past three years. One could argue that these SMMEs could face financial challenges such as the high transaction costs of buying tender documents. The latter could be because of the late payment of invoices by municipalities.

6.5.3 Section C: Payment challenges

The findings of this section relate to 25 suppliers' payment challenges, which include

- suppliers' experience of non-payment of invoices in the last five years;
- experience of late payment of invoices in the last five years;
- the percentage of invoices paid beyond the stipulated time frame;
- length of time it takes the municipality to make payment;
- hours spent per week pursuing late payments;
- the amount that is currently outstanding in late payments from municipalities; and
- the value of invoices written off due to non-payment over the past five years.

The tables and figures will report on the frequencies and percentages for each variable.

6.5.3.1 Experience of non-payment of invoices in the last five years

Figure 6.13 below indicates that 48% of the respondents experienced non-payment of invoices in the last five years, compared to 44% who did not have an experience at all of non-payments. Two respondents (8%) did not answer this question.

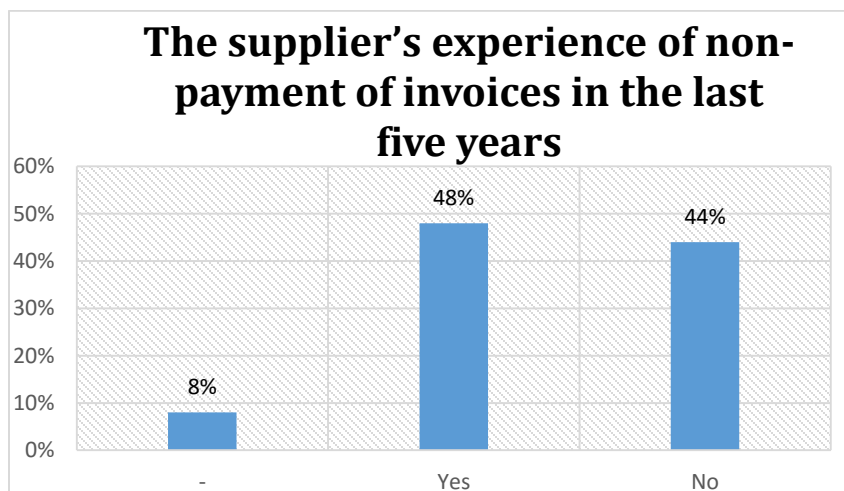


Figure 6.13: Suppliers' experience of non-payment of invoices in the last five years (n = 25)

6.5.3.2 Experience of late payment of invoices in the last five years

Figure 6.14 below indicates that 48% of the respondents experienced late payment of invoices in the last five years, whereas 44% were paid within 30 days as required by statutes. Two respondents (8%) did not answer this question. However, since the majority of the respondents had an experience of late payment in the last five years, it shows that municipalities in the Free State Province are unable to apply policies consistently, as stipulated by Section 65(2)(e) of the *MFMA* (RSA, 2003) and the Batho Pele principles, which requires that people doing business with the South African government be treated equally.

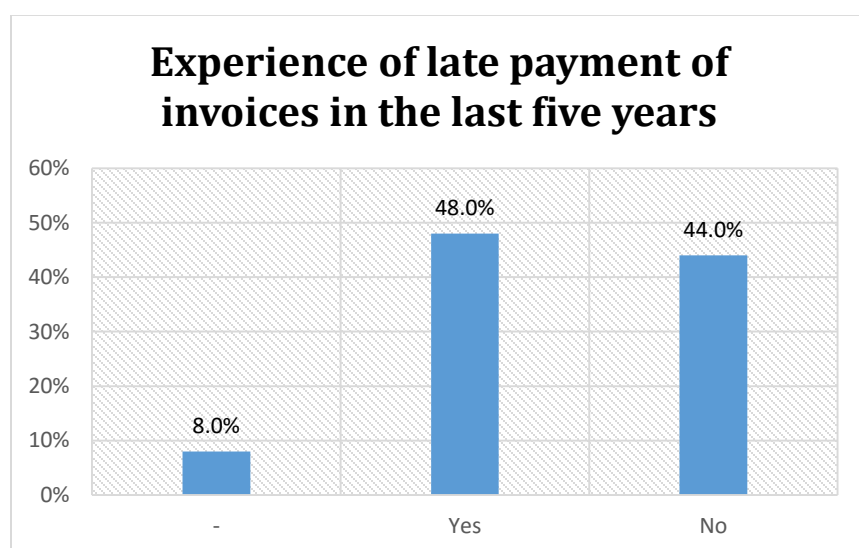


Figure 6.14: Experience of late payment of invoices in the last five years (n = 25)

It is noteworthy that 48% of the respondents' experienced non-payment of invoices and the same percentage also experienced late payments within the period of five years as stated in Figure 6.13 and Figure 6.14 respectively. This implies that the majority of the respondents were not paid within 30 days of the receipt of the valid invoices, which could be an indication as to why most SMME businesses are unable to remain economically viable within the first five years of existence. SMME suppliers are unable to sustain their businesses beyond five years due to, among others, late payment of invoices, and lack of managerial competencies of the owners, as indicated by Rambe and Makhalemele (2015:680). As discussed in Chapter two, Section 2.5.3 of this study, a supplier must be paid within 30 days of receiving the relevant invoice. Section 65(2) (e) of the *MFMA* (RSA, 2003) provides that the accounting officer of a municipality must ensure that all money

owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. It was also mentioned in Chapter two, Section 2.5.3 of the study that in terms of Section 97(3) of the *MFMA* (RSA, 2003), the accounting officer must immediately inform the parent municipality of any payment due by an organ of state to the public entity in respect of service charges if such payments are regularly in arrears for periods of more than 30 days.

6.5.3.3 The percentage of invoices paid beyond the stipulated period

Figure 6.15 below indicates the percentage of invoices paid beyond the stipulated period. The results show that half of the suppliers indicated that more than 50% of their invoices were paid beyond the stipulated time, whereas 8% of suppliers had between 25% and 50% of their invoices paid beyond the stipulated time, with 25% of suppliers having less than 25% of their invoices paid late.

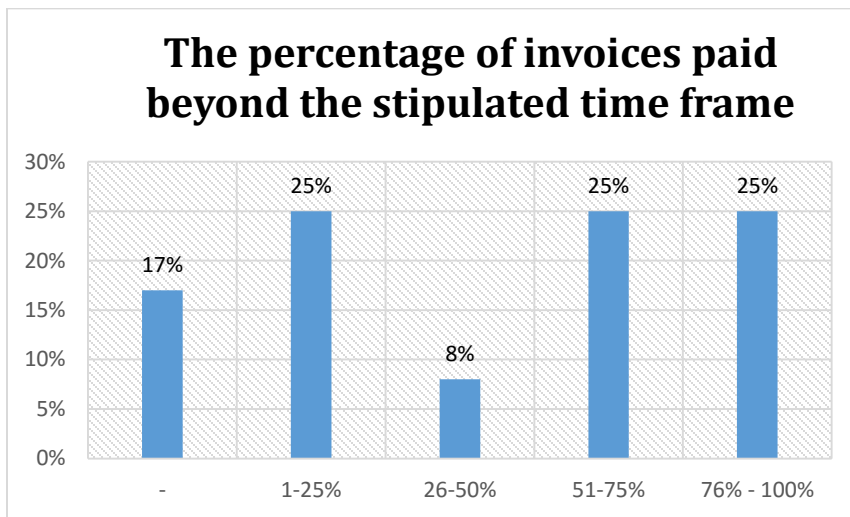


Figure 6.15: The percentage of invoices paid beyond the stipulated period (n = 12)

From the results provided in Figure 6.15 above, one could argue that if some suppliers had an experience that 100% of their invoices were not paid within the stipulated period, district municipalities and their affiliated local municipalities in the Free State require assistance in the form of the proposed framework for the management of suppliers as part of SCM. The above practice is also not compliant with Section 65(2)(e) of *MFMA* (RSA, 2003), as stated in Chapter two, Section 2.5.3 of this study, that all money owed by the municipality be paid within 30 days

of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

6.5.3.4. Length of time it takes municipality to make payment

The results in Figure 6.16 below shows that the majority of suppliers (50%) waited 31 to 60 days before receiving their payment; a combined percentage of 42% of suppliers waited between 61 and 120 days to receive payment; and 8% of suppliers were paid after a period of 120 days.

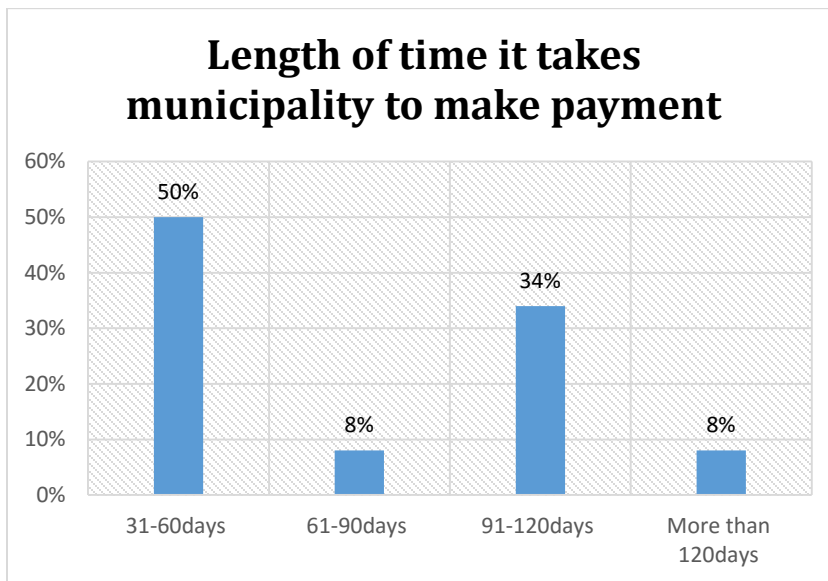


Figure 6.16: Length of time it takes municipality to make payment (n = 12)

The length of time the municipality takes to pay their suppliers is not in line with the requirements of Section 65(2)(e) of the *MFMA* (RSA, 2003), which provides that the accounting officer of a municipality must ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. Furthermore, this implies the ineffective implementation of Sections 96 and 97 of the *MSA*, 2000, which provide for the debt collection responsibility of municipalities, as well as their ability to adopt, maintain and implement a credit control and debt collection policy. It could further be argued that the municipalities view credit or monies owed to suppliers as an available source of income whenever there is a cash flow crisis (Pauw *et al.*, 2015:212-215).

6.5.3.5 Hours spent in a week pursuing late payments

Figure 6.17 below indicates that one respondent (8%) did not answer this question; 17% of the suppliers spent less than an hour a week to pursue late payments; 8% spent one to two hours; 25% spent three to four hours; 15% spent five to six hours; and the remainder (25%) of the suppliers spent more than six hours a week to pursue late payments at their district municipality. Consequently, a total of 67% of the suppliers spend between more than three hours a week pursuing late payments by municipalities.

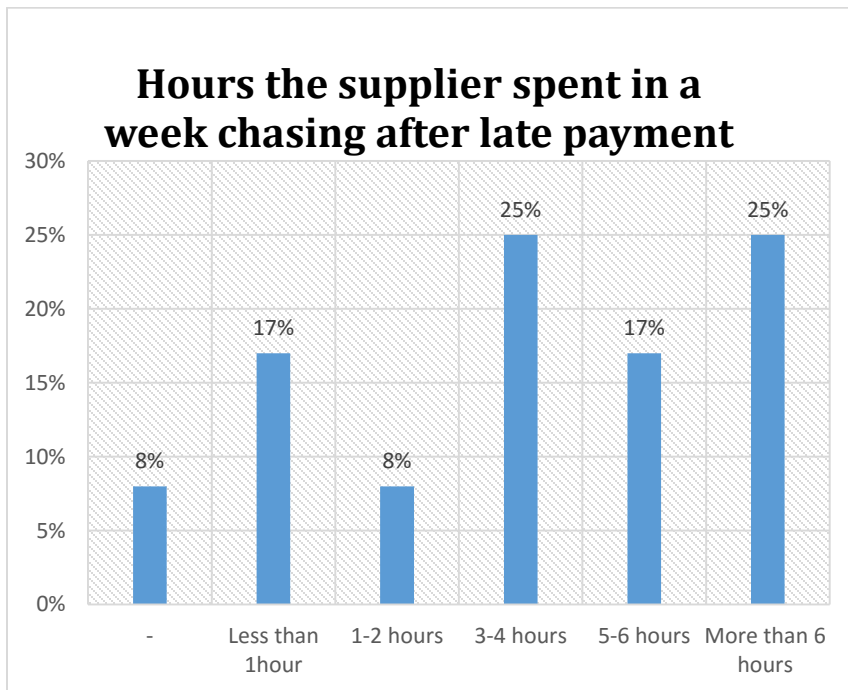


Figure 6.17: Hours spent in a week pursuing late payments (n = 12)

It can be seen from Figure 6.17 that the majority of the suppliers spend between three to six hours chasing late payments. One could argue that this situation implies poor customer service rendered by the district or local municipalities. Furthermore, the suppliers could use the time on activities that are more productive instead of trying to pursue late payments. A concern is that there appears to be no consequence for the officials who do not inform the suppliers of the stage where the payment is at, instead leaving the suppliers to chase after the municipalities.

6.5.3.6 The amount that is currently outstanding in the late payments from municipalities

At the time the research was executed, 25% of the suppliers did not have any outstanding amounts owed by municipalities as seen in Figure 6.18 below, while 17% of the suppliers were owed less than R10 000; the majority (50%) were owed between R100 000 and R500 000; and 8% of suppliers were owed more than R500 000.

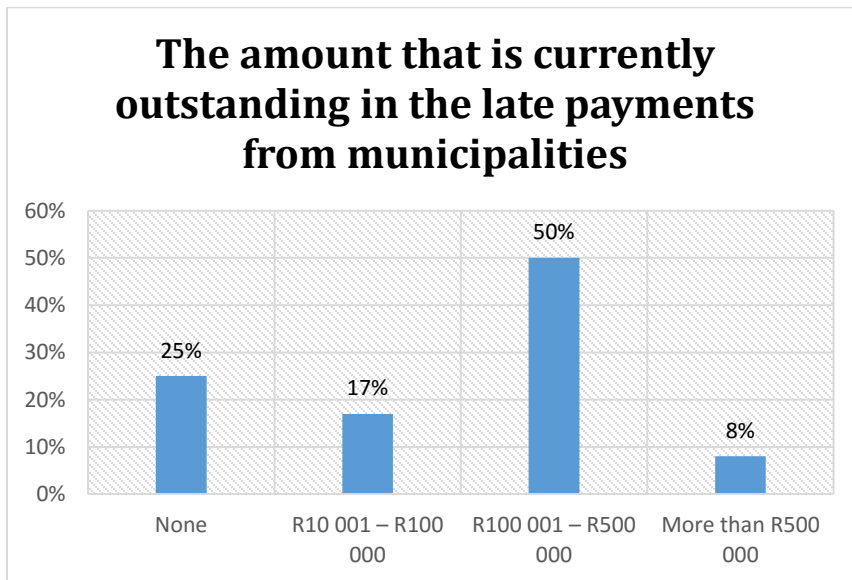


Figure 6.18: The amount that is currently outstanding in late payments from municipalities (n = 12)

This implies that late and non-payment of suppliers is becoming worse, which delays service delivery.

6.5.3.7 The value of invoices written off due to non-payment over the past five years.

The results in Figure 6.19 below indicate that 41% of suppliers did not write off the debt the municipalities owed them. In the last five years, 8% of suppliers wrote off an amount between R1 001 and R10 000, whereas almost a third (34%) of suppliers wrote off outstanding amounts between R10 001 up to R500 000 and 17% of suppliers wrote off outstanding amounts of more than R500 000. Consequently, the non-payment of services rendered by 51% of the suppliers to a particular municipality led to the loss of income of more than R10 001, which is unacceptable.

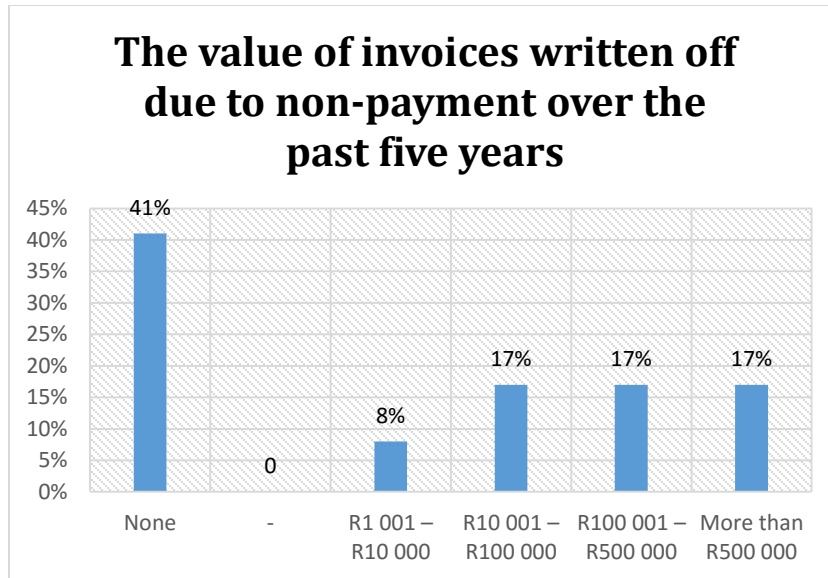


Figure 6.19: The value of invoices written off due to non-payment over the past five years (n = 12)

This implies that if suppliers wrote off the debt, they would also be unable to pay their municipal rates and tax accounts, which further affected the municipalities’ revenue collection. One could further argue that municipalities did not adhere to Section 65(2)(e) of the *MFMA* (RSA, 2003), which provides that the accounting officer of a municipality must ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

6.5.3.8 Summary of the interpretations of Section C: Payment challenges

In summary, the results of the payment challenges section reveal that 48% of suppliers have experienced late and non-payment, respectively, in the last five years. Half (50%) of the suppliers’ invoices were paid beyond the stipulated time and they waited 31–60 days before receiving their payment, while 25% of the suppliers spent more than six hours a week in pursuing late payments. The majority (50%) are currently owed between R100 000 and R500 000, and 34% of suppliers have written off outstanding amounts between R10 001 up to R500 000.

The problems facing SMME suppliers, such as limited resources and the high expectations of the government, indicate that it is important that municipalities operate with businesses that are sustainable, skilled, experienced and capacitated to fulfil the public and government demands. The

procurement reforms in the government, such as the promotion of principles of good governance and the introduction of a preference system, requires contracts to be awarded to previously disadvantaged people who are SMMEs.

Timely payment of suppliers, as agreed or according to the contract, assists with growing businesses and creates wealth and jobs. The results show that the majority of the respondents were not paid within 30 days of the receipt of valid invoices, which could be an indication as to why most SMME businesses are unable to stay alive within their first five years of existence. Chapter two, Section 2.5.3 of this study clearly indicated, as emphasised in the discussion above, that suppliers must be paid within 30 days of receiving the relevant invoice. It was further emphasised in Chapter two of this study that in terms of Section 65(2)(e) of the *MFMA* (RSA, 2003), the accounting officer of a municipality must ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. It was also mentioned in Chapter two, Section 2.5.3 of the study that in terms of Section 97(3) of the *MFMA* (RSA, 2003), the accounting officer must immediately inform the parent municipality of any payment due by an organ of state to the public entity in respect of service charges if such payments are regularly in arrears for periods of more than 30 days.

Awareness of the percentage of income that is paid beyond the stipulated time frame plays a crucial role in understanding how far the municipality honours the terms of contractual agreement, and what percentage of income the suppliers are unable to invest in opportunities that are profitable to the business in order to grow the business and create wealth and jobs. Half of the suppliers who participated in the questionnaire indicated that more than 50% of their invoices were paid beyond the stipulated time, whereas 8% of suppliers had between 25% and 50% of their invoices paid beyond the stipulated time, while 25% of suppliers had less than 25% of their invoices paid late.

Knowledge of the length of time municipalities take to make payment and the hour's suppliers spent pursuing late payment play a role in bringing awareness to the municipality of the reason that the supplier could decline the next order or charge excessive prices. The majority (50%) of suppliers who participated waited 31–60 days before receiving their payment; a combined percentage of 42% of suppliers waited between 61–120 days to receive payment; and 8% of

suppliers were paid after a period of 120 days. 17% of the suppliers spent less than an hour a week pursuing late payments, 8 % spent 1–2 hours, 25% spent 3–4 hours, 15 % spent 5–6 hours, and the remainder (25%) of the suppliers spent more than six hours a week pursuing late payments at their district municipality. Consequently, 67% of the suppliers spent between more than three hours a week pursuing their late payments.

The length of time the municipality takes to pay their suppliers, and the hours suppliers spent pursuing late payment, are not in line with the requirements as stated in Chapter two and Chapter four of this study, namely that in terms of Section 65(2)(e) of the *MFMA* (RSA, 2003), the accounting officer of a municipality must ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. Furthermore, this implies the ineffective implementation of Section 96 and 97 of the *MSA* (RSA, 2000), which provides for the debt collection responsibility of municipalities, as well as their ability to adopt, maintain and implement a credit control and debt collection policy. It could be argued further that the municipalities view credit or monies owed to suppliers as an available source of income whenever there is a cash flow crisis.

Knowledge of the amount currently outstanding in late payments and the value of invoices that small businesses have written off due to non-payment of invoices play a crucial role for municipalities in knowing how many businesses close due to waiting for payment and writing off invoices. At the time the research was executed, 25% of the suppliers did not have any outstanding amounts owed by municipalities, as seen in Figure 6.18. 17% of the suppliers were owed less than R10 000; the majority (50%) were owed between R100 000 and R500 000; and 8% of suppliers were owed more than R500 000. 41% of the total respondents did not write off the debt the municipalities owed them. However, 8% of suppliers wrote off an amount between R1 001 and R10 000, whereas almost a third (34%) of suppliers wrote off outstanding amounts between R10 001 up to R500 000, and 17% of suppliers wrote off outstanding amounts of more than R500 000. Consequently, the non-payment of services rendered by 51% of the suppliers to a municipality lead to the loss of income of more than R10 001, which is unacceptable. This confirms that district municipalities and their affiliated local municipalities in the Free State do need assistance in the form of the proposed framework for the management of suppliers as part of procurement management and SCM practices.

6.5.4 Section D: Effects of late payment

In this section, the subsidiary objective of determining the impact of the municipal procurement practices in relation to the socio-economic conditions of suppliers within the district municipalities of the Free State Province will be discussed. Specifically, the effect of socio-economic conditions of the suppliers will be reported, and seven items relating to the effect of late payment were used. A five-point Likert scale, where 1 = *strongly disagree*, 2 = *disagree*, 3 = *undecided*, 4 = *agree* and 5 = *strongly agree*, was used to gather the information. Figure 6.20 below indicates the answers of all 25 respondents.

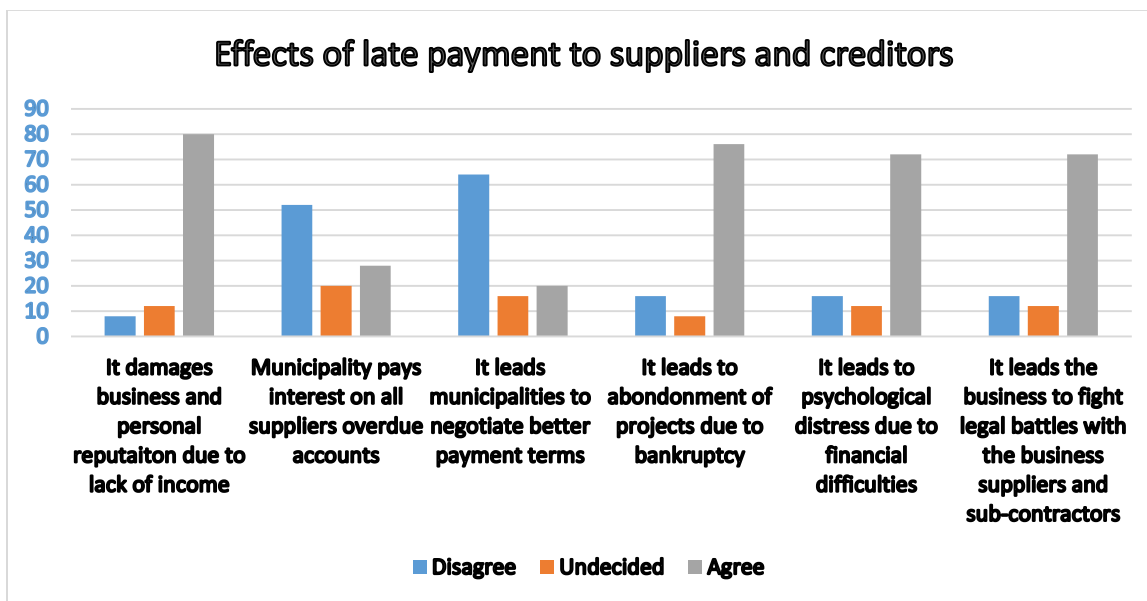


Figure 6.20: Effects of late payment to suppliers and creditors (n = 25)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* will be combined and will only be referred to as *disagree*, and a response of *agree* or *strongly agree* will be combined and will only be referred to as *agree*, as seen in Figure 6.20. Based on the responses, 80% of the suppliers agreed that late payment damaged their business and personal reputation; 76% of suppliers agreed that they were unable to complete projects due to bankruptcy; 72% of respondents agreed that late payments lead to legal battles with their suppliers and sub-contractors. Almost three quarters (72%) of the suppliers agreed that they suffered psychologically. More than half (52%) of the suppliers disagreed that municipalities paid interest on all overdue accounts; 56% of the suppliers disagreed that there were good relations between

municipality and suppliers; and 64% of the suppliers disagreed that municipalities offered better payment terms when late payment was applicable. This clearly shows that SMMEs doing business with district municipalities need to be better managed.

A reliability analysis on the effect of the late payment scale comprising seven items results in a Cronbach's alpha (α) of 0.61. Items one to six and seven were reversed for the analysis, so that the opposite is true. The scale had an acceptable internal consistency ($\alpha > 0.60$). Most items appeared to be worthy of retention, resulting in a decrease in the alpha if deleted. The one exception to this was item three, which would increase the alpha to $\alpha = 0.67$. As such, removal of this item could be considered. Item three was removed.

From Figure 6.20 above, it is clear that the majority of the suppliers agreed that late payment damaged business and personal reputation. Furthermore, the majority of the suppliers disagreed that there were good relations between municipality and suppliers due to the late payment of services rendered to the municipality. Most of the suppliers also disagreed that municipalities offered better payment terms to suppliers. Since the majority of the suppliers (80%) agreed that late payment damaged business and personal reputation, one could argue that it is clear that the late or non-payment of services has a negative impact in relation to the socio-economic conditions of suppliers doing business with the selected district and local municipalities. This is a concern and not in accordance with the requirements of the *PPPFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003), as provided in Chapter two of this study (Section 2.5.5 and Section 2.5.7). This requires that the government and, for the purpose of this study, municipalities in the Free State Province, have to provide opportunities to previously disadvantaged groups, in particular small to medium suppliers, and to ensure that there are effective public procurement practices in place in municipalities to manage suppliers.

6.5.4.1 Summary of the interpretations of responses to Section D: Effects of late payment, Questions 4.1 to 4.7

As seen in Figure 6.20 above concerning the results and findings from Questions 4.1, 4.5, 4.6 and 4.7, it is clear that the majority of the respondents (80%; 76%; 72% and 72%) agreed that late payment damaged their business and personal reputation and that they were unable to complete projects due to bankruptcy. This led to legal battles with their suppliers and sub-contractors and as

a consequence they suffered psychologically. As discussed in Chapter two of this study, Section 217 of the *Constitution* (RSA, 1996) requires that procurement practices must take into consideration fairness, equity, transparency, competitiveness and cost effectiveness when municipalities do business with suppliers.

Responses from respondents to Questions 3.6 and 3.7 indicated that 50% of the suppliers were owed between R100 000 and R500 000; 8% of suppliers were owed more than R500 000; almost a third (34%) of suppliers wrote off outstanding amounts between R10 001 up to R500 000; and 17% of suppliers wrote off outstanding amounts of more than R500 000. Consequently, the non-payment of services rendered by 51% of the suppliers to a municipality led to the loss of income, and it can be argued that it damaged their business and personal reputation, preventing them from completing projects due to bankruptcy. This led to fighting legal battles with their suppliers and sub-contractors and as a result they suffered psychologically.

From the findings of Questions 4.3, which enquired if “late payment encourages good relations between municipality and suppliers”, it was noticed that the majority (56%) of the respondents disagreed that there were good relations between municipalities and suppliers. One could argue that it means that late payment harms good relations between municipality and suppliers. This confirms that district municipalities and their affiliated local municipalities in the Free State do need assistance in the form of the proposed framework for the management of suppliers as part of procurement management and SCM practices.

6.6 RESULTS AND ANALYSIS RELATING TO THE SELF-ADMINISTERED STRUCTURED QUESTIONNAIRE COMPLETED BY MUNICIPAL MANAGEMENT (OFFICIALS) OF FOUR DISTRICT MUNICIPALITIES AND ONE LOCAL MUNICIPALITY AFFILIATED TO EACH DISTRICT MUNICIPALITY IN THE FREE STATE PROVINCE

The results and analysis of the structured questionnaires are stated in the following discussion.

6.6.1 Section A: Biographical information of municipal officials

This section contains the results of the 20 municipal officials’ biographical information, which includes ethnic group, gender, disability, home language, age, level of education and current work experience. The tables and figures will report on the frequencies and percentages for each variable.

6.6.1.1 Ethnic group

Table 6.2 and Figure 6.21 below are related to municipal officials’ ethnicity. It indicates that 95% of the municipal officials were Africans and 5% were Coloured. This indicates almost no ethnic differences in the management positions at Free State municipalities.

Table 6.2: Ethnicity of the municipal officials (n = 20)

Ethnicity	Frequency	Percentage
Africans	19	95.0
Coloured	1	5.0

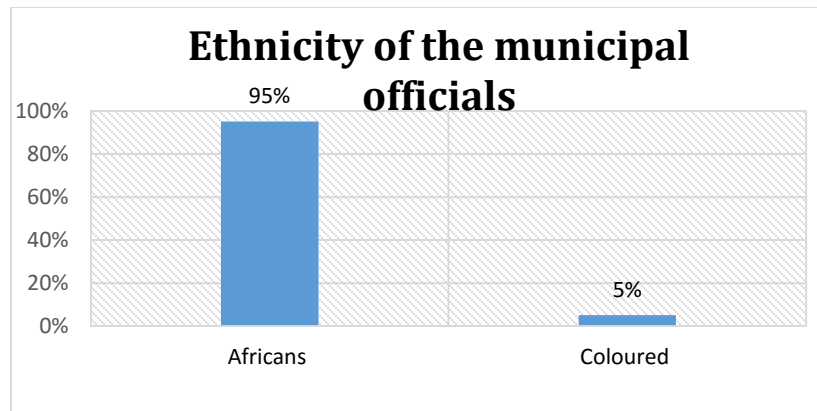


Figure 6.21: Ethnicity of the municipal officials (n = 20)

From Figure 6.21 it is clear that the majority of the municipal officials are African.

6.6.1.2 Gender

Table 6.3 and Figure 6.22 illustrate the gender proportions of the municipal officials. The majority of the municipal officials were male (65%), and 35% were female. This result indicates a clear

gender disparity in the management positions at Free State municipalities. Women are less represented. This is not in line with the founding principles on gender equality stated in the *Constitution*, 1996. It can be argued that the lower number of female municipal officials could mean that the municipal management does not contribute effectively to gender equality by appointing women in managerial positions.

Table 6.3: Gender of municipal officials (n = 20)

Gender	Frequency	Percentage
Male	13	65.0
Female	7	35.0

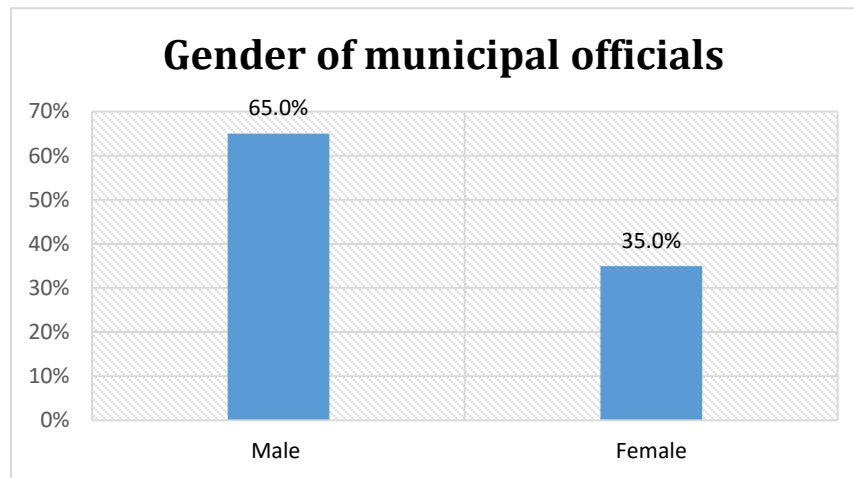


Figure 6.22: Gender of municipal officials (n = 20)

6.6.1.3 Disability

All municipal officials (100.0%) confirmed that they are not disabled, as shown in Table 6.4 below. Thus, regulations to employ persons with disabilities in the municipal management of Free State municipalities have not been met. In Chapter three, Section 3.6 in this study it was emphasised that the *BBBEEA* (RSA, 2003) aims to empower all black people economically through procurement, including people living in rural areas, people with disabilities, youth and female-owned SMME suppliers, with a view to creating opportunities for SMMEs to grow the economy and create jobs. Section 9(3) of the *Constitution* (RSA, 1996) provides that the organ of state may not discriminate directly or indirectly against anyone based on disability. The nil representation of

disabled municipal officials may be indicative of the intolerances that municipal management has towards people with disability; hence, the regulations to employ persons with disabilities in the municipal management of Free State municipalities were not met.

Table 6.4 Disability of municipal officials (n = 20)

Disability	Frequency	Percentage
Not Disabled	20	100.00

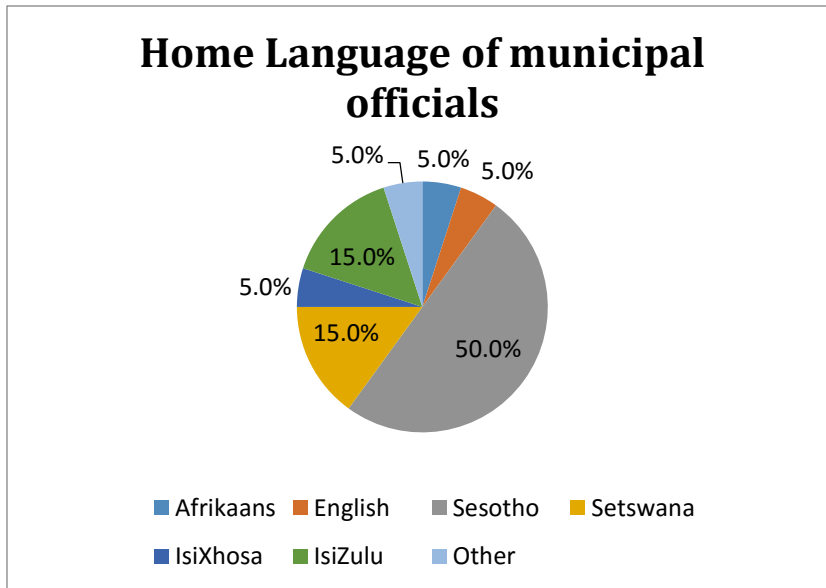
6.6.1.4 Home language

Table 6.5 and Figure 6.23 below indicate that 50% of the municipal officials' home language is Sesotho; 15% isiZulu, 15% Setswana followed by Afrikaans, English and isiXhosa at 5% each. The home language spoken by the municipal officials is representative of the Free State Province demographic profile as recorded in Census 2011.

Table 6.5: Home Language of municipal officials (n = 20)

Home Language	Frequency	Percentage
Afrikaans	1	5.0
English	1	5.0
Sesotho	10	50.0
Setswana	3	15.0
isiXhosa	1	5.0
isiZulu	3	15.0
Other	1	5.0

Figure 6.23: Home Language of the municipal officials (n = 20)



6.6.1.5 Age group

Table 6.6 and Figure 6.24 below indicate that 45% of the municipal officials were between the ages of 30–39 years, 30% of the municipal officials were between 40–49 years and 25% were between 50–59 years. This indicates that most of the municipal officials are older than 40 years.

Table 6.6: Age group of municipal officials (n = 20)

Age of municipal officials	Frequency	Percentage
30-39 years	9	45.0
40-49 years	6	30.0
50-59 years	5	25.0

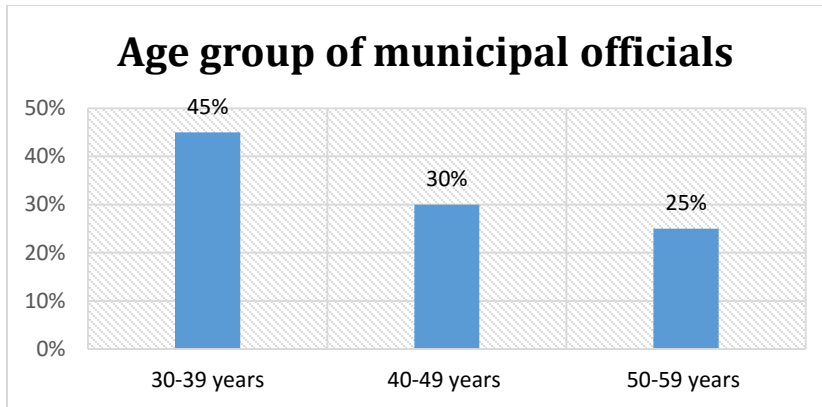


Figure 6.24: Age group of municipal officials (n = 20)

6.6.2 Work experience of municipal officials

6.6.2.1 Number of years of municipal officials' work experience in a municipality

Table 6.7 and Figure 6.25 below outline the number of years the municipal officials have worked at a municipality. It can be seen that 5% of the municipal officials' work experience is between two to three years; 10% is between four to five years; 50% of the municipal officials had worked at a municipality between six to ten years; and 35% of the municipal officials had more than ten years' municipal work experience.

Table 6.7: Total number of years of municipal officials' work experience (n = 20)

Number of years of municipal work experience in municipality	Frequency	Percentage
Less than one year	-	-
Between two to three years'	1	5.0
Between four to five years'	2	10.0
Between six to ten years'	10	50.0
Over ten years'	7	35.0

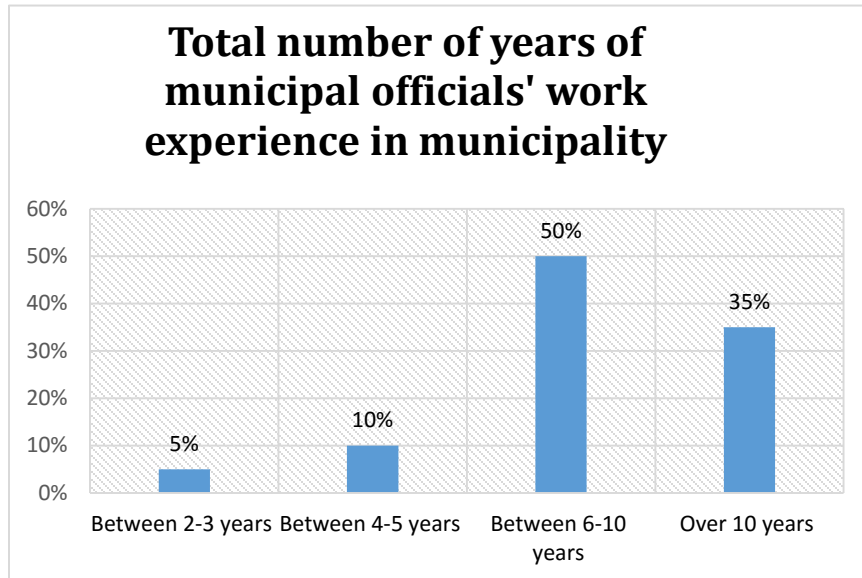


Figure 6.25: Total number of years of municipal officials' work experience in municipality (n = 20)

From Figure 6.25 it is clear that most of the municipal officials (85%) had more than six years of municipal work experience. The work experience should allow municipal officials to promote the principle stated in Section 195 (1)(b) of the *Constitution* (RSA, 1996), which requires all organs of state, including municipal officials, to promote the principle of efficient, economic and effective use of resources.

6.6.2.2 Municipal officials' work experience in SCM

Table 6.8 and Figure 6.26 indicate that 70% of the municipal officials had work experience in SCM at a municipality.

Table 6.8: Municipal Officials' work experience in SCM (n = 20)

Municipal Officials' work experience in SCM	Frequency	Percentage
Yes (Worked in SCM)	14	70.0
No (Not worked in SCM)	6	30.0

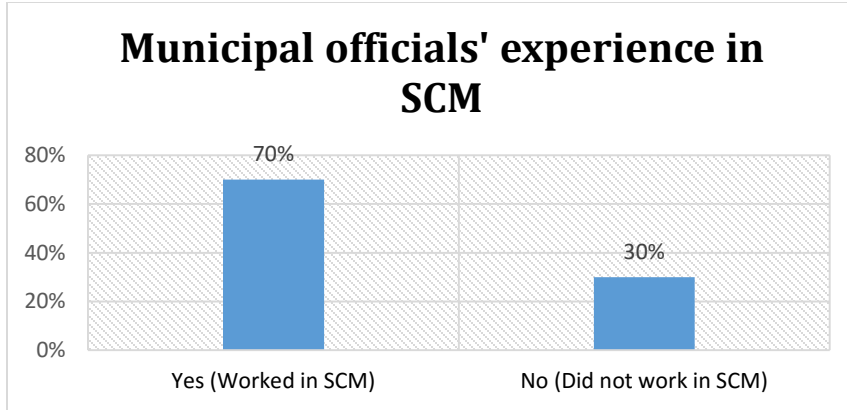


Figure 6.26 Municipal officials' work experience in SCM (n = 20)

From Table 6.8 and Figure 6.26 above one can see that the majority of the municipal officials (70%) have experience in SCM within local government. It can therefore be assumed that working in SCM in municipality is required in terms of the National Treasury (RSA, 2005a:86) stated in Chapter three, Section 3.4 of this study, which states that municipal managements promote practices that are efficient, economic and effective at all times to avail themselves of the right quantities, at the right conditions, of the right quality, with commodities at the right place and at the right time, from the right supplier (National Treasury, 2005a:86).

6.6.2.3 Number of years of municipal officials' SCM experience

Below is the information for the 14 municipal officials that had municipal experience in SCM. Table 6.9. and Figure 6.27 outline the number of years' experience municipal officials had in this field. A total of 7% of the municipal officials had less than two years' experience in SCM, 29% have between two to three years' experience in SCM, while 21% had between four to five years' experience and the majority of the 14 municipal officials had between six to ten years' experience in SCM at a municipality (43%).

Table 6.9: Number of years of municipal officials' SCM experience (n = 14)

Number of years worked in SCM	Frequency	Percentage
Less than 2 years	1	7.1
Between 2–3 years	4	28.6

Between 4–5 years	3	21.4
Between 6–10 years	6	42.9

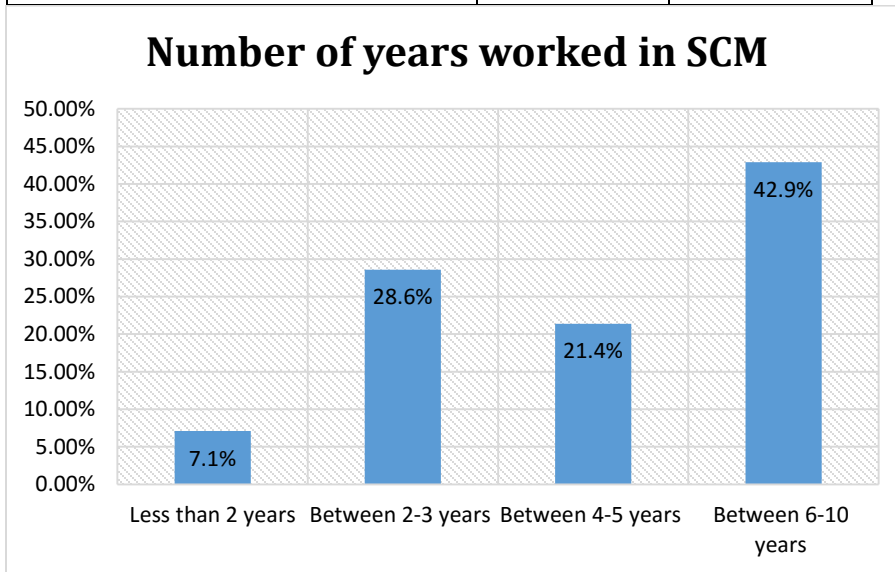


Figure 6.27: Number of years of municipal officials’ SCM experience (n = 14)

As depicted from Table 6.9 and Figure 6.27 above the majority (64.3%) of the municipal officials had between four to ten years’ work experience in SCM at a municipality. One could argue that more needs to be done to ensure that all officials working in procurement and SCM units have SCM knowledge and SCM experience. It is indicated in Chapter three, Section 3.2.4 of this study that commodity analysis, as part of SCM, must be undertaken by competent and highly experienced commodity teams.

6.6.2.4 Level of highest education of municipal officials

Table 6.10 and Figure 6.28 below outline the frequencies and percentages related to respondents’ level of education extracted from self-administered structured questionnaires. This clearly indicates that respondents were educated, as none of them had a level of education less than high school and the majority of them had post-matric qualifications such as a certificate (5%), diploma (15%), degree (55%), honours degree (20%), and master’s degree (5%).

Table 6.10 Municipal Officials’ Level of Education

Level of education of municipal officials	Frequency	Percentage
Certificate	1	5.0
Diploma	3	15.0
Degree	11	55.0
Honours or Equivalent	4	20.0
Masters/MBA	1	5.0

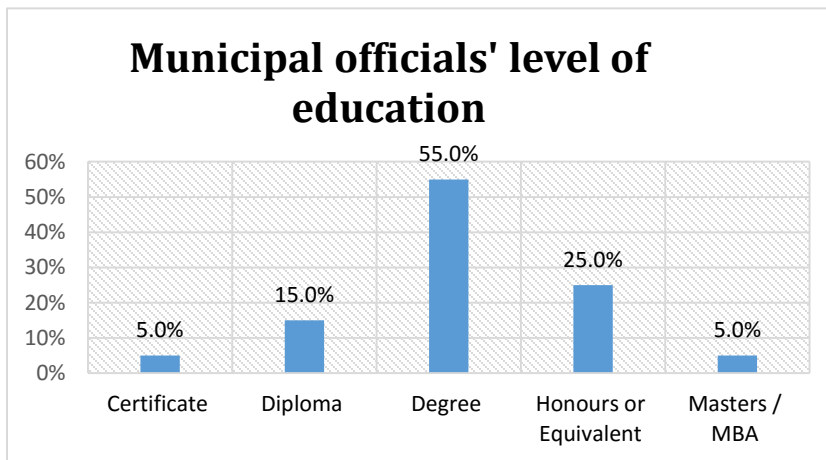


Figure 6.28: Municipal officials’ level of education

Table 6.10 and Figure 6.28 above outline the local or district municipality where municipal officials are currently employed. From Figure 6.28 it is clear that the majority of the municipal officials (55%) have a degree, and 25% have a postgraduate qualification. This indicates that municipalities consist of academically qualified officials. In Section 2.3.2 it was mentioned that the lack of proper knowledge, skills and capacity can be seen at the greatest impediment regarding the implementation of effective SCM and procurement practices in South African public sector.

6.6.2.5 Municipality where the municipal officials are currently employed

Table 6.11 and Figure 6.29 illustrate the district or local municipality at which the municipal officials are currently employed.

Table 6.11: District/Local municipality the municipal officials are currently employed (n = 20)

District/Local Municipality	Frequency	Percentage
Setsoto Local Municipality	1	5.3
Moqhaka Local Municipality	1	5.3
Lejweleputswa District Municipality	2	10.5
Tswelopele Local Municipality	3	15.8
Thabo Mofutsanyana District Municipality	9	47.4
Xhariep District Municipality	3	15.8

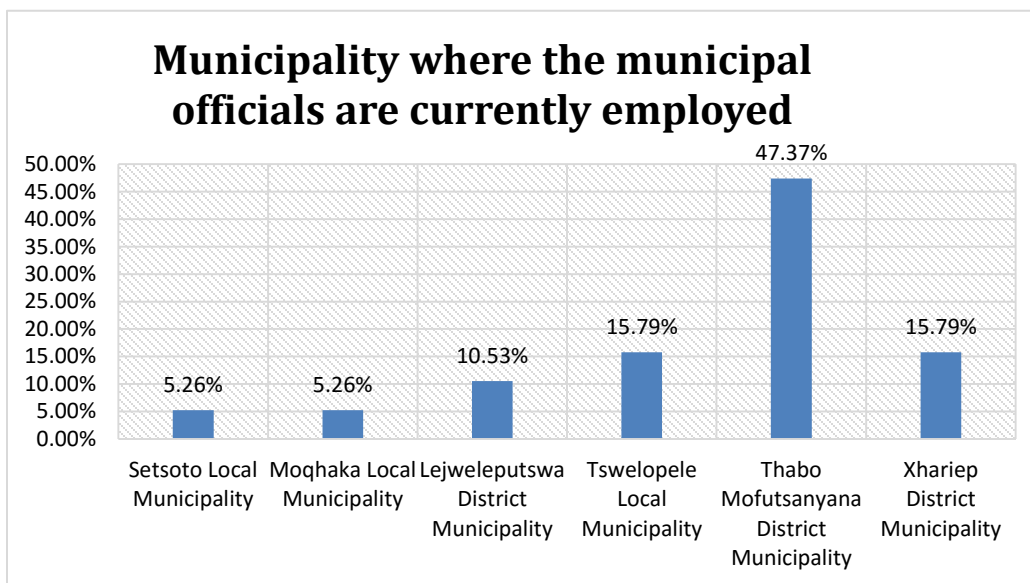


Figure 6.29 Municipality where the municipal officials are currently employed (n = 20)

Figure 6.29 shows that most of the municipal officials are from Thabo Mofutsanyana District Municipality, whereas the minority are from Setsoto Local Municipality.

6.6.3 Summary and interpretations of Section A: Respondents biographical information

The summary of biographical information of the municipal officials indicates that the majority are African (95%) and male (65%). All of these municipal officials are without disability and 50%

have Sesotho as their official home language. The larger number (45%) of municipal officials are between the ages 30 and 39 years and 55% have a degree.

In relation to age distribution of the respondents, 45% of the municipal officials were between the ages of 30 and 39 years, while 30% were between 40 and 49 years, and 25% were between 50 and 59 years. No respondents were below the age of 30. This indicates that age plays an important role in the appointment of top management in the municipalities. Since the focus of the research is on the procurement practices of the municipalities, the researcher observed that the municipal officials who award contracts at the municipalities were between the ages 30–59 years.

As discussed in Chapter four of this study, the *WPLG* (RSA, 1998:2) indicates that local government should be responsive and accountable and deliver services that meet community needs in an efficient and equitable manner. This indicates that it is important to have experienced senior management working for a municipality who will make every effort to increase performance when fulfilling their responsibilities. Based on the analysis, the majority of the municipal officials (85%) had more than six years' municipal work experience. This work experience should allow municipal officials to be accountable and deliver services that meet community needs in an efficient and equitable manner. The finding contradicts the report of the Auditor-General which indicated that continued lack of accountability and leadership or senior management failures in the Free State were the main causes of governance failures, which led to significant regression in audit outcomes (AGSA, RSA, 2017:55-57).

Adequate levels of education in the senior management level at municipalities are important. In relation to the level of education of the municipal officials, the majority of the municipal officials (55%) have a degree, and 25% have a postgraduate qualification. This indicates that municipalities consist of academically qualified officials. This could mean that Free State municipalities are adequately qualified compared to senior management of other municipalities.

6.7 SECTION B: SCM PRACTICES

This section presents the empirical results of the SCM within the district municipalities of the Free State Province, with specific focus on the subsection's demand management, acquisition management, logistics management and disposal management.

6.7.1 Subsection: Demand management practices

Firstly, the demand management practices within SCM in the district municipalities of the Free State Province will be reported on. Six items relating to demand management practices were rated by the municipal officials on a five-point Likert scale, where 1 = *strongly agree*, 2 = *agree*, 3 = *don't know*, 4 = *disagree* and 5 = *strongly disagree*. Table 6.12 and Figure 6.30 below indicates responses of 20 municipal officials to six items related to demand management practices.

Table 6.12 Demand management practices (n = 20)

Demand Management Questions	Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
	f	%	f	%	f	%	f	%	f	%
Q 2.1 The municipal management identified all demands during the strategic planning of your district municipality in the past three years.	5	25	10	50	2	10	3	15		
Q 2.2 The municipal management approved the procurement plan prior to procurement each year in the past three years.	5	25	11	55	1	5	3	15		
Q 2.3 The municipal management aligned the procurement plan with the approved budget each year.	5	25	11	55	1	5	3	15		
Q 2.4 The municipal management established list of reliable Small Medium and Micro-Enterprise suppliers (SMME) in the past three years.	5	25	10	50	2	10	3	15		
Q 2.5 Quotations were accepted from SMME suppliers who were not on the list of reliable suppliers in the past three years.	5	25	11	55	1	5	3	15		
Q 2.6 There is proper segregation of duties in the SCM Unit.	5	25	11	55	1	5	3	15		

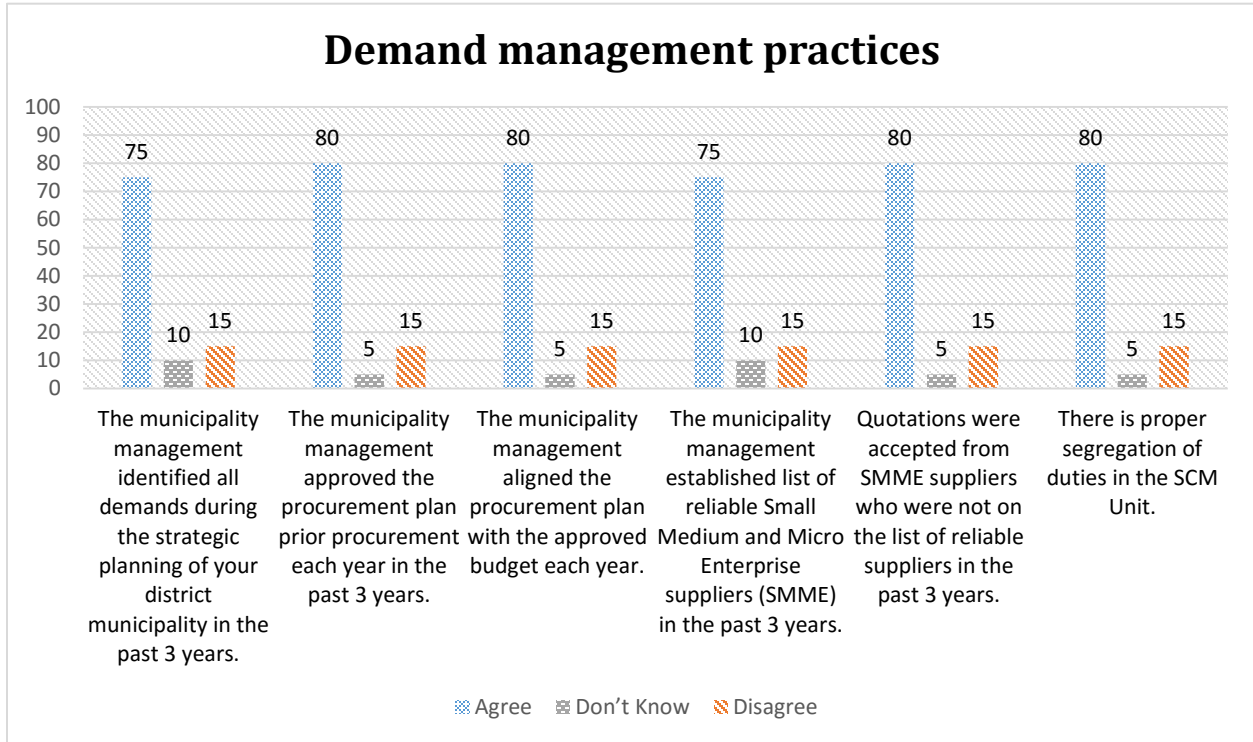


Figure 6.30: Demand management practices (n = 20)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* was combined and was only referred to as *disagree* and a response of *agree* or *strongly agree* was combined and was only be referred to as *agree*. Table 6.12 and Figure 6.30 above show that a total of 80% of the municipal officials agreed that their municipal management aligned the procurement plan, with the approved municipal budget. 80% of the municipal officials further agreed that the municipal management identified all demands during the strategic planning of the municipality (National Treasury, RSA, 2003a). In Section 3.2 of this study, it was mentioned that a municipality had to identify all demands during the strategic planning activities/sessions of the municipality. 80% of municipal officials perceive that demand management was effectively carried out by municipalities, as it mainly focuses on ensuring that commodities and services are amongst others supplied at the right price. In Chapter three, Section 3.2 of this study it was mentioned that in terms of the National Treasury (RSA, 2005b), the SCM Policy of the municipality, and for the purpose of this question, the practice of SCM within the municipality, should be fair, equitable, transparent, competitive, cost-effective and an effective system of demand management. This is to ensure that all planned commodities and services are delivered at

the correct time, price and place, and that the quantity and the quality will be of requisite satisfaction and from the right supplier, with a view to uplifting the socio-economic status of SMME suppliers doing business with municipalities and municipal entities (National Treasury, RSA, 2017b).

The majority (80%) of the municipal officials agreed that there was a proper segregation of duties in the SCM Unit in the particular municipality. The majority of the municipal officials (80%) agreed that quotations were accepted from SMME suppliers who were not on the list of reliable suppliers in the past three years. The latter is not in line with the requirements of the National Treasury (RSA, 2005b) as discussed in Chapter two, Section 2.7.2.3, which requires that municipalities must keep a list of accredited suppliers of goods and services from which they have to source suppliers. Furthermore, in Chapter 3.3.2 of this study, it was mentioned that in terms of the National Treasury (RSA, 2016f), price quotations be invited and accepted from prospective suppliers listed on CSD. 75% of the municipal officials indicated that the municipality had established a list of reliable SMME suppliers in the past three years (National Treasury, RSA, 2005b; National Treasury, RSA, 2016f). A reliability analysis on the demand management practices scale comprising of 6 items results in a Cronbach's alpha (α) of 0.99, and the scale had an exceptional internal consistency ($\alpha > 0.90$).

The last question in demand management in the structured questionnaire (Question 2.7) was an open-ended question, which requested municipal officials to describe how the National Treasury (RSA, 2016f) could be used for radical transformation of local SMMEs. The 20 municipal officials gave 14 responses in total. These responses are summarised in Table 6.13 below.

Table 6.13: Recommendations how the National Treasury CSD can be used for radical transformation of local SMMEs (n = 14)

Suggestions	Frequency	Percentage
Always make sure that 30% of any tender is reserved for SMME.	1	7.14
By decreasing repetition of effort and cost for suppliers and government and allowing automated procurement process.	1	7.14

CSD assists in such a way that the SMMEs are readily available from the database; and all the required information is also captured in the CSD.	1	7.14
CSD is being developed. The municipality is now in the position to retrieve geographic data for all SMMEs.	1	7.14
CSD should be aligned to the individual municipality database of local SMMEs whereby preference will be given to locals at municipality level and not national level.	1	7.14
The database should be clustered per category of suppliers, so that when a request or procurement is done, only the intended category of suppliers is afforded the opportunity.	1	7.14
Ensuring it is actually grooming the future of South African business. SMMEs play a bigger role in the economy than ever before, giving much-needed opportunities for employment.	1	7.14
It will assist in supplier rotation and give business opportunity to young emerging business if properly monitored and administered.	1	7.14
NT caters for all municipalities in the country, so economic transformation for suppliers within a specific area is not promoted effectively.	1	7.14
Registered service providers can be contacted, as it can be sorted by ward to ward and from town to town.	1	7.14
Select tax-compliant suppliers per area; that is, by district, local municipality/town only. Selection can also be done focusing on designated groups within an area.	1	7.14
Small or emerging business enterprises within different districts will benefit from the system as it considers the geographical location of the service provider/suppliers, e.g. the ward member.	1	7.14

The CSD can give SMMEs nationwide access to procurement opportunities based on their competencies, even if their municipalities might not require such services.	1	7.14
Uncluttered access to state business and information.	1	7.14

From Table 6.13 above, it can be determined that municipal officials provided differing views regarding how the CSD could be used for radical transformation of local SMMEs. In Chapter three, Section 3.3.2 in this study, it was noted that the National Treasury (RSA, 2005b) instructed municipal management to keep a list of prospective providers. This has been replaced by the National Treasury (RSA, 2016f), which also requires that the current list of prospective suppliers', the SCM system, and policies of the respective organs of state be aligned with the provisions of the National Treasury, RSA, 2016f. The CSD requires that price quotations be invited and accepted from prospective suppliers listed on the CSD. Municipality and municipal entities are not allowed to award any bid for price quotations to a bidder not registered on the CSD.

In the light of the above, Table 6.13 shows that a total of four municipal officials, whose combined score equals 29%, suggested that information on CSD be classified according to geographic data of suppliers; another indicated information should be sorted through ward by ward and town by town; and a third official proposed by area, district, local and/or town only, that is, by geographical location, as it would be easier to award business. Even though 7% of the municipal officials hold that CSD caters for all municipalities in the country, economic transformation for suppliers within a specific area is not promoted effectively. Suppliers from other municipalities are not prevented from participating in the tender processes of municipalities of other towns.

The above question was designed to elicit more information on the municipal official's intention to use available resources such as CSD to develop local SMMEs. Municipal officials had different opinions about how CSD can transform local SMMEs. However, most responses clearly show that there is a need to develop a framework for management of suppliers that can be used by all municipalities of the Free State Province in order to have a common approach towards the development of local SMMEs. The researcher is of the view that a common approach will be easier to assess and monitor the implementation thereof and provide remedial actions, where necessary.

6.7.1.1 Discussion and interpretation of inferential statistical findings on the effect of municipal managers' experience on demand management practices related to SCM

The effect of experience of municipal officials on demand management practices of SCM within local government is investigated. From Table 6.8 and Figure 6.26 above, 70% of municipal officials (n = 14) within local government have experience concerning SCM. The frequency distribution of demand management practices from Table 6.12 is summarised by a calculated mean score for each of the 6 items (*strongly agree* = 1, *agree* = 2, *don't know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the subsection. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.14 below the mean and standard deviation (SD) scores for each item in the demand management practices subsection is summarised for municipal officials with and without experience concerning SCM.

Table 6.14: Effect of experience of municipal officials on demand management practices (n = 20).

Demand Management Questions	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean ± SD	Mean ± SD	
Q 2.1 The municipal management identified all demands during the strategic planning of your district municipality in the past three years.	2.29 ± 1.14	1.83 ± 0.41	0.3621
Q 2.2 The municipal management approved the procurement plan prior procurement each year in the past three years.	2.21 ± 1.12	1.83 ± 0.41	0.4348
Q 2.3 The municipal management aligned the procurement plan with the approved budget each year.	2.21 ± 1.12	1.83 ± 0.41	0.4348
Q 2.4 The municipal management established a list of reliable Small Medium and Micro-	2.21 ± 1.12	1.83 ± 0.41	0.4348

Enterprise suppliers (SMME) in the past three years.			
Q 2.5 Quotations were accepted from SMME suppliers who were not on the list of reliable suppliers in the past three years.	2.21 ± 1.12	1.83 ± 0.41	0.4348
Q 2.6 There is proper segregation of duties in the SCM Unit.	2.21 ± 1.12	1.83 ± 0.41	0.4348

Overall those municipal officials with SCM experience had a higher level of disagreement for each item in the demand management practices subsection. This higher level of disagreement was not significant (all p-values > 0.05) and consequently, experience of the current municipal officials in SCM had no effect on the six items for demand management practices.

6.7.2 Subsection: Acquisition management practices

Secondly, the acquisition management practices within SCM in the district municipalities of the Free State Province will be reported on. Six items relating to acquisition management practices were rated by the municipal officials on a five-point Likert scale, where 1 = *strongly agree*, 2 = *agree*, 3 = *don't know*, 4 = *disagree* and 5 = *strongly disagree*. Table 6.15 and Figure 6.31 below indicates the responses of 20 municipal officials to the six items related to acquisition management practices.

Table 6.15: Acquisition management practices (n = 20)

Acquisition Management Questions	Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
	F	%	f	%	f	%	f	%	f	%
Q 3.1 The municipal management selected few reliable SMME suppliers to do business with in the past three years.	4	20	11	55	1	5	3	15	1	5
Q 3.2 The municipal management procured commodities, services and works stated in the procurement plan in the past three years.	3	15	12	60	1	5	4	20		
Q 3.3 The 20 and 10 points for BBBEE status level awarded to qualifying SMME assisted to accelerate the supplier socio-economic conditions.	3	15	15	75	1	5	1	5		
Q 3.5 The transversal contracts arranged by Office of the Chief Procurement Officer helped municipal management to form valuable relationships with contracted SMMEs.	2	10	8	40	5	25	5	25		
Q 3.6 The municipal management continuously improved performance of	3	15	14	70	1	5	1	5	1	5

SMME supplier throughout the duration of the contract.										
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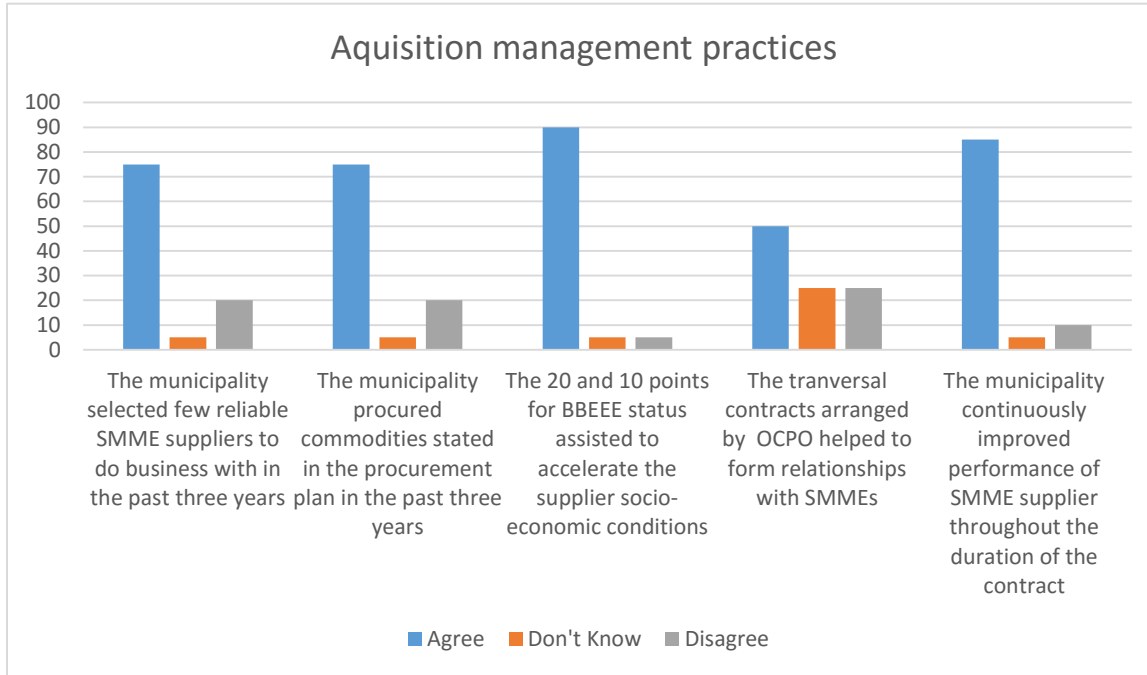


Figure 6.31: Acquisition Management Practices (n = 20)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* was combined and was referred to as *disagree* and a response of *agree* or *strongly agree* was combined and was referred to as *agree*.

From Table 6.15 and Figure 6.31 it can be depicted that the majority of the municipal officials (75%) agreed that the municipal management elected few reliable SMME suppliers to do business with in the past three years. In Chapter three, Section 3.3.2 of this study, it was mentioned that it is easier to manage with smaller, reliable SMME suppliers, and it would assist in awarding an equal distribution of contracts periodically, which will bring rapid growth and better service delivery. In total, 75% of the municipal officials agreed that the municipal management procured commodities, services and works contained in the procurement plan, whereas 90% of the municipal officials agreed that 20 and ten (10) points for BBEE status level assisted in accelerating socio-economic conditions of suppliers. The majority of the municipal officials (80%) agreed that the transversal contracts arranged by the OCPO helped the municipal management to form valuable relationships with contracted SMMEs, and 85% of the municipal officials also agreed that the municipal management continuously improved performance of SMME suppliers

for the duration of the contract. A reliability analysis on acquisition management practices comprising six items resulted in a Cronbach's alpha (α) of 0.36, which is unacceptable. Items one and four were reversed for the analysis, because they had a negative correlation with the total score. The scale had a poor internal consistency ($\alpha < 0.60$). Most items appeared to be worthy of retention, resulting in a decrease in the alpha if deleted. The one exception to this was item four, which had an unacceptable internal consistency of 0.40. As such, removal of this item could be considered. Item four was removed as suggested.

The acquisition management item scores for the municipal officials are fairly high (>70% agreement) thus indicating that municipalities assisted in accelerating the supplier socio-economic conditions. This is not in line with the findings discussed in Chapter five, Section 5.3 concerning the Report Creditors Analysis of the Free State Municipalities extracted from the Local Government Database of 2017 (National Treasury, RSA, 2017 c). The above report indicates that the Free State Province is the second-highest after Gauteng Province in terms of money owed to suppliers, at R22 085 65 000 in 2015/2016 and R31 485 111 000 in 2016/2017.

Reports of the financial year 2015/2017 in the local government database of creditors analysis stated that Free State Municipalities do not adhere to Section 65(e) of the *MFMA* (RSA, 2003), which requires that all contractual obligations and money owed be settled within 30 days of receiving a valid invoice. Since the municipal officials answering this questionnaire are municipal management officials, the researcher was interested in hearing whether the management of the municipalities were aware of the consequences of late or non-payment of suppliers. If they were aware and unable to remedy the situation, it could be argued that they need to be assisted with a framework on management of suppliers as part of procurement management practices.

Lastly, the municipal officials were requested to indicate (open-ended question 3.7) how late or non-payment of SMMEs suppliers affects the local economy by choosing between the options *positive effect*, *no effect* and *negative effect*. All municipal officials (100%) indicated that the late or non-payment of SMMEs affected the local economy negatively. The municipal officials then explained why they indicated *negative effect* by answering an open-ended question. The 20 municipal officials gave 18 responses. These responses can be summarised as the sustainability of business and borrowing money categories in Table 6.16 below.

Table 6.16: Reason for negative effect on local economy because of late or non-payment of SMMEs suppliers (n = 18)

Question/Statements 3.7	Frequency	Percentage
Affects SMMEs negatively to a degree of killing their business. They are solely dependent on these payments.	1	5.56
Affects cash flow negatively. Kills their business because of financial problems.	1	5.56
Auditors from the office of the Auditor-General always raise queries on the late payments of service providers.	1	5.56
Due to the size of their enterprise their cash flow is weaker and that affects their productivity.	1	5.56
Failure to pay SMMEs within 30 days contributes to some of the SMMEs closing down. Some also had to reduce the staff complement as they were not in a position to pay staff on time.	1	5.56
Hampers their ability to supply other business and keep the business afloat.	1	5.56
If any SMME is not paid on time, they are prejudiced by interest from suppliers and banks or loan sharks.	1	5.56
It affects local economy because the circulation of money is interrupted and it does not circulate within the local economy.	1	5.56
Late payment implies we do not support them and it is killing SMMEs.	1	5.56
SMME suppliers are not self-sustainable because of lack of huge capital and cash flow. Municipalities' cash flow is also much to be desired and are unable to assist SMME.	1	5.56
SMME's borrow money to provide services anticipating being paid within 30 days, but they end up with more debt because of late	1	5.56

Question/Statements 3.7	Frequency	Percentage
payment. They also fail to pay their municipal rates and taxes account.		
Small businesses are not well established. They buy from the well-established businesses through loans or pay out of their own pockets are then not paid for three months. They are paid before delivery because we believe they are well established and sustainable.	1	5.56
Some suppliers rely on loans to procure the goods prior to delivery at the municipality, non-payment leads to defaults on some of the arrangements (and personal asset being repossessed).	1	5.56
Spoils relationships needed by both contracting parties. Employees are not paid on time and a general disturbance to the debt and purchasing ability of the community.	1	5.56
The SMME entirely depends on effective cash-flow payments. The nature of their business does not allow extending credit facility over 30 days.	1	5.56
The bigger challenge is that most of the SMMEs are not well established. On average, these businesses spend 10.4 hours a month on debt recovery. This is largely ineffective allocations, wasting time that could be spent much more effectively on developing strategies.	1	5.56
They buy the material as soon as the tender is awarded.	1	5.56
Unlike big business with massive cash flow, SMMEs are dependent on how quick the municipality is able to pay them otherwise they are not able to move an inch.	1	5.56

Table 6.16 above shows findings on how late or non-payment of SMME suppliers affects the local economy. Of the municipal officials, 28% were of the view that the businesses are unable to survive due to payment failure. Businesses that are not sustainable are unable to affect the economy positively. Approximately 17% of the municipal officials mentioned that borrowing money or

acquiring loans from banks affected the business' ability to pay their municipal rates and taxes. Inability to pay rates affects the revenue of the municipality, which further affects the service delivery negatively. The above views indicate that municipal officials are aware of the negative results that late and non-payment of SMMEs has on the local economy. It can be concluded that there is a need for the development of the proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province, in order to assist with late and non-payment of SMME suppliers.

6.7.2.1 Discussion and interpretation of inferential statistical findings on the effect of municipal managers' experience on acquisition management practices

The effect of experience of municipal officials in SCM on acquisition management practices of SCM within local government is investigated. Previously from Table 6.8 and Figure 6.26 above 70% of municipal officials (n = 14) within local government have experience concerning SCM. The frequency distribution of acquisition management practices from Table 6.14 is summarised by a calculated mean score for each of the six items (*strongly agree* = 1, *agree* = 2, *don't know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the subsection. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.17 below the mean and standard deviation (SD) scores for each item in the acquisition management practices subsection is summarised for municipal officials with and without experience concerning SCM.

Table 6.17: Effect of experience of municipal officials on acquisition management practices (n = 20).

Acquisition Management Questions	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean ± SD	Mean ± SD	
Q 3.1 The municipal management selected few reliable SMME suppliers to do business with in the past three years.	2.43 ± 1.28	2.00 ± 0.63	0.4514

Q 3.2 The municipal management procured commodities, services and works stated in the procurement plan in the past three years.	2.36 ± 1.15	2.17 ± 0.41	0.7012
Q 3.3 The 20 and 10 points for BBBEE status level awarded to qualifying SMME assisted to accelerate the supplier socio-economic conditions.	2.14 ± 1.10	2.00 ± 0.00	0.7576
Q 3.5 The transversal contracts arranged by Office of the Chief Procurement Officer helped municipal management to form valuable relationships with contracted SMMEs.	2.57 ± 0.94	2.83 ± 1.17	0.6006
Q 3.6 The municipal management continuously improved performance of SMME supplier throughout the duration of the contract.	2.07 ± 1.00	2.33 ± 0.82	0.5792

Overall those municipal officials with SCM experience had a higher level of disagreement for the first three items in the subsection, and municipal officials without SCM experience had a higher level of disagreement for the last two items in the subsection. These higher levels of disagreement were not significant (all p-values > 0.05) and consequently experience of the current municipal officials in SCM had no effect on the five items for acquisition management practices.

6.7.3 Subsection: Logistics management practices

The logistics management practices within SCM in the district municipalities of the Free State Province will be reported on. Six items relating to logistics management practices were rated by municipal officials in the municipalities where municipal officials are currently employed. The municipal officials were asked to indicate the extent they agreed or disagreed with the statements stated in a five-point Likert scale where 1 = *strongly agree*; 2 = *agree*; 3 = *don't know*; 4 = *disagree*;

and 5 = *strongly disagree*. Table 6.18 and Figure 6.32 below indicates the responses of 20 municipal officials to the five items related to logistics management.

Table 6:18 Logistics management practices (n = 20)

Logistics management items	Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
	f	%	F	%	f	%	f	%	f	%
Q 4.1 The municipal management instituted strategies to manage inventory in the past three years.	5	25	12	60			3	15		
Q 4.2 The inventory management strategies in place reduced the costs of holding inventory.	3	15	14	70			3	15		
Q 4.3 The reduced costs created adequate cash reserve for prompt payment of Small, Medium and Micro-Enterprise suppliers.	1	5	10	50	5	25	3	15	1	5
Q 4.4 The automated procurement system in place led to shorter delivery times.	2	10	7	35	3	15	8	40		
Q 4.5 The municipal management has measures in place to process invoices	6	30	11	55	1	5	2	10		

for payment within a particular timeframe.										
Q 4.6 The municipal management had instances where the period for late payment to creditors exceeded 120 days in the past three years.	5	25	8	40	1	5	2	10	4	20

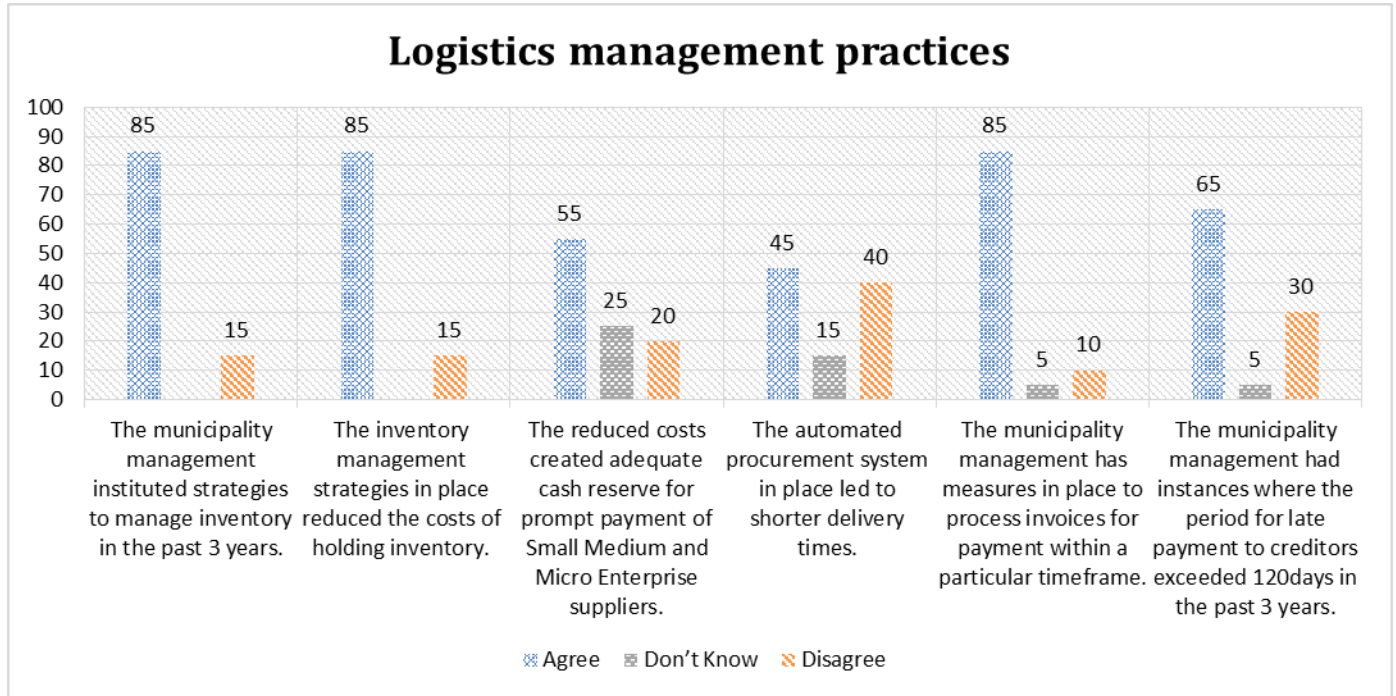


Figure 6.32 Logistic Management Practices (n = 20)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* was combined and was referred to as *disagree* and a response of *agree* or *strongly agree* was combined and was referred to as *agree*.

Table 6.18 and Figure 6.32 above show that 85% of the municipal officials agreed that municipal management instituted strategies to manage inventory in the past three years; 85% agreed that the inventory management strategies in place reduced the costs of holding inventory. Only 55% of the municipal officials agreed that the reduced costs created adequate cash reserves for prompt payment of SMME suppliers, whereas 25% responded that they did not know. This clearly indicates that 25% of the municipal officials were not intentional in terms of how to use cash reserves or monies saved from reducing costs, which is a concern for effective logistic management, as discussed in Chapter three of this study. In total, 40% of the officials disagreed that the automated procurement system in place led to shorter delivery times while 45% *agree* and 15% were *undecided*. A majority of 85% of municipal officials agreed that they had measures in place to process invoices for payment within a particular timeframe. In total, 65% of the municipal officials agreed that they had instances where the period for late payment to creditors exceeded

120 days in the past three years, which is a concern. A reliability analysis on logistics management practices comprising six items results in a Cronbach's alpha (α) of 0.74. Items 1, 2 and 6 were reversed for the analysis. The scale had an acceptable internal consistency ($\alpha > 0.70$).

In the light of the above it was discussed in Section 3.4, Chapter three of this study, that in an effort to implement logistics management practice as stated in the National Treasury (RSA, 2005b), municipalities and municipal entities management must set efficient and effective inventory levels, place orders, receive and distribute goods, manage stores and warehouses, expedite orders, manage transport, manage vendor performance, perform maintenance, as well as overseeing contract administration and management. These practices should also activate the financial system to generate payments as stipulated in Section 65(2)(e) of the *MFMA* (RSA, 2003), which requires municipal management to pay all outstanding monies owed to SMMEs suppliers within 30 days of receiving correct invoices.

6.7.3.1 Discussion and interpretation of inferential statistical findings on the effect of municipal managers' experience on logistics management practices

The effect of experience of municipal officials in SCM on logistics management of SCM within local government is investigated. Previously from Table 6.8 and Figure 6.26 more than 70% of municipal officials ($n = 14$) within local government have experience concerning SCM. The frequency distribution of logistics management from Table 6.18 is summarised by a calculated mean score for each of the six items (*strongly agree* = 1, *agree* = 2, *don't know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the subsection. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.19 below the mean and standard deviation (SD) scores for each item in the logistics management subsection is summarised for municipal officials with and without experience concerning SCM.

Table 6.19: Effect of experience of municipal officials on logistics management practices (n = 20).

Logistics Management Questions	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean \pm SD	Mean \pm SD	
Q 4.1 The municipal management instituted strategies to manage inventory in the past three years.	2.07 \pm 1.14	2.00 \pm 0.00	0.8817
Q 4.2 The inventory management strategies in place reduced the costs of holding inventory.	2.21 \pm 1.05	2.00 \pm 0.00	0.6289
Q 4.3 The reduced costs created adequate cash reserve for prompt payment of Small, Medium and Micro-Enterprise suppliers.	2.50 \pm 0.94	3.00 \pm 1.10	0.3125
Q 4.4 The automated procurement system in place led to shorter delivery times.	2.93 \pm 1.21	2.67 \pm 0.82	0.6352
Q 4.5 The municipal management has measures in place to process invoices for payment within a particular timeframe.	2.29 \pm 1.38	1.67 \pm 0.52	0.3068
Q 4.6 The municipal management had instances where the period for late payment to creditors exceeded 120 days in the past three years.	2.36 \pm 1.22	3.17 \pm 2.04	0.2807

Overall those municipal officials with SCM experience had a higher level of disagreement for the items one to five in the subsection and municipal officials without SCM experience had a higher level of disagreement for items three and six in the subsection. These higher levels of disagreement were not significant (all p-values > 0.05) and consequently the current experience of municipal

officials in SCM had no effect on the six items for logistics management. However, one can argue that municipal officials without SCM experience could have a negative impact on logistic management practices in district municipalities of the Free State province. This could explain why suppliers are delivering goods that are not according to specifications. Furthermore, it could be an indication as to why so many projects are not completed within municipalities of the Free State Province. One can argue that the above is an indication of poor quality control and due to the fact that goods and services are not monitored upon delivery by municipal officials as required in SCM policy frameworks.

6.7.4 Subsection: Disposal management practices

The disposal management practices within SCM in the district municipalities of the Free State Province will be reported on. Five items relating to disposal management practices were rated by municipal officials in the municipalities where municipal officials are currently employed. The municipal officials were asked to indicate the extent they agreed or disagreed with the statements stated in a five-point Likert scale where 1 = *strongly agree*; 2 = *agree*; 3 = *don't know*; 4 = *disagree*; and 5 = *strongly disagree*. Table 6.20 and Figure 6.32 below indicates the responses of 20 municipal officials to the five items related to disposal management.

Table 6.20: Disposal management practices (n = 20)

Disposal Management Questions		Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
		F	%	F	%	f	%	f	%	f	%
Q 5.1 The municipal management appointed disposal committee in the past three years.		1	5	5	25	3	15	10	50	1	5
Q 5.2 The appointed disposal committee disposed commodities according to disposal strategy in place.		1	5	5	25	3	15	10	50	1	5
Q 5.3 The municipal management contracted experienced Small, Medium and Micro-Enterprise suppliers to dispose of all redundant commodities.				2	10	5	25	13	65		
Q 5.4 The municipal management maintained updated database of		2	10	12	60	3	15	3	15		

redundant material in the past three years.											
Q 5.5 The recent Office of the Chief Procurement Officer's reforms improved disposal management.		1	5	6	30	10	50	3	15		

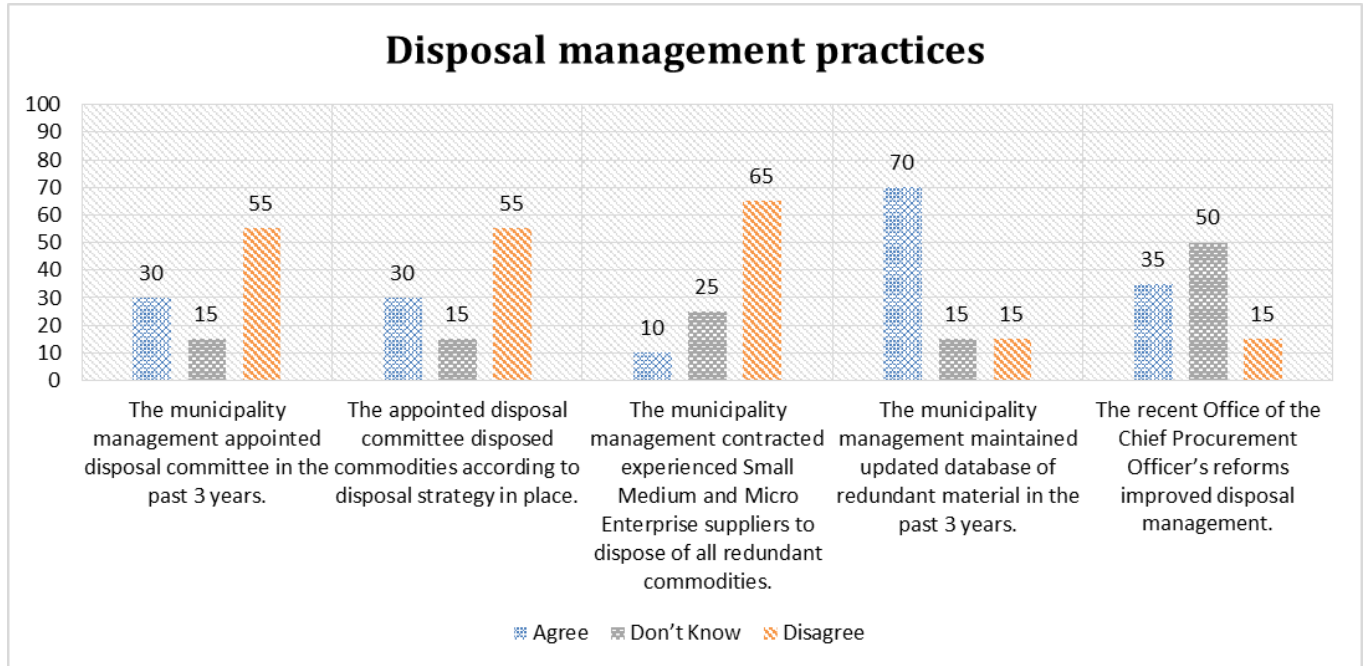


Figure 6.33: Disposal management practices (n = 20)

In order to discuss the findings from Table 6.20 and Figure 6.33 in a simple and meaningful way a response of *strongly disagree* or *disagree* was combined and was referred to as *disagree* and a response of *agree* or *strongly agree* was combined and was referred to as *agree*. Slightly more than half of the municipal officials (55%) disagreed that municipal management had appointed a disposal committee in the past three years according to a disposal strategy in place. In total, 65% of the municipal officials disagreed that experienced SMME suppliers were contracted to dispose of all redundant commodities and 70% of the municipal officials agreed that the municipal management maintained an updated database of redundant material in the past three years. Furthermore, 50% of the municipal officials indicated that they did not know if the recent OCPO reforms improved disposal management, which is a concern.

It was mentioned in Chapter three, Section 3.5 of this study that in the management of municipalities and municipal entities, disposal management is viewed as the fourth element of SCM, which is important to ensure the best value for money over the useful life span of the asset or commodity. This is attained through applying policies intended to enable the emergence of the SMME supplier (National Treasury, RSA, 2005a:96-97; National Treasury, RSA, 2008b:177). A concern is that only 55% of the municipal officials above indicated above that their municipalities

established a disposal committee. In Section 3.5 of this study it was mentioned that in terms of the *MFMA* (RSA, 2003) that the disposal committee of the municipality must make all effort to ensure that the movable assets or commodities are disposed of in accordance to prescribed procedures and the National Treasury Code of Conduct for SCM practitioners (National Treasury, RSA 2007b). In Section 3.5 of this study it was further mentioned that most municipalities do not have a disposal committee in place, meaning no declaration of interest forms are completed to ensure proper application of the National Treasury (RSA, 2017a). From the above one could interpret that not all district and affiliated municipalities of the Free State Province have a disposal committee in place. This is an indication that these municipalities deviate from the *MFMA* (RSA, 2003) the National Treasury Code of Conduct for SCM practitioners and National Treasury (RSA, 2017a).

A reliability analysis on disposal management practices comprising six items results in a Cronbach's alpha (α) of 0.61. Only item three was reversed, because it had a negative correlation with the total score. The scale had an acceptable internal consistency ($\alpha > 0.60$).

6.7.4.1 Discussion and interpretation of inferential statistical findings on the effect of municipal managers' experience on disposal management practices

The effect of the experience of municipal officials in SCM on disposal management practices of SCM within local government is investigated. Previously from Table 6.8 and Figure 6.26 above 70% of municipal officials ($n = 14$) within local government have experience concerning SCM. The frequency distribution of disposal management practices from Table 6.16 is summarised by a calculated mean score for each of the 5 items (*strongly agree* = 1, *agree* = 2, *don't know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the subsection. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.21 below the mean and standard deviation (SD) scores for each item in the disposal management practices subsection is summarised for municipal officials with and without experience concerning SCM.

Table 6.21: Effect of experience of municipal officials on disposal management practices (n = 20).

Disposal Management Questions	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean ± SD	Mean ± SD	
Q 5.1 The municipal management appointed disposal committee in the past three years.	3.57 ± 0.94	2.50 ± 1.05	0.0361
Q 5.2 The appointed disposal committee disposed commodities according to disposal strategy in place.	3.36 ± 1.15	3.00 ± 0.89	0.5088
Q 5.3 The municipal management contracted experienced Small, Medium and Micro-Enterprise suppliers to dispose of all redundant commodities.	3.50 ± 0.76	3.67 ± 0.52	0.6317
Q 5.4 The municipal management maintained updated database of redundant material in the past three years.	2.29 ± 0.91	2.50 ± 0.84	0.6289
Q 5.5 The recent Office of the Chief Procurement Officer's reforms improved disposal management.	2.64 ± 0.84	3.00 ± 0.63	0.3660

For item one in the subsection the mean score for officials with experience in SCM (3.57) was significantly different from the mean score for officials without experience in SCM (2.50) ($p = 0.0361$). Consequently, experience of municipal officials in SCM had an effect on the first items for disposal management practices. For the remaining four items in the subsection there were no significant differences between the levels of disagreement of municipal officials with and without SCM experience (all p -values > 0.05) and consequently experience of municipal officials in SCM had no effect on the last four items for disposal management practices. In Section 2.3.1.4

and Section 3.5 of this study it was alluded that the municipality must appoint a disposal committee to, amongst others, deal with disposals, and inspect any material for potential re-use or sale. The disposal committee requires experienced officials since this committee's decision determines the revenue that the municipality will derive from the sale of goods that are still in good condition. One could argue that it has a negative impact on effective disposal management if municipalities' do not have a functional disposal committee as required in the *MFMA* (RSA, 2003) the National Treasury Code of Conduct for SCM practitioners and National Treasury (RSA, 2017a).

6.7.5 Summary of the interpretations of Section B: Supply Chain Management/

The summaries of the interpretations of responses of Section B are outlined in the discussions below.

6.7.5.1 Summary of interpretations of responses to Question 2.1

The purpose of the question was to determine if all needs had been identified and planned for before procurement, to avoid unplanned buying from suppliers that could deplete municipal cash flow. Question 2.1, relating to whether the municipal officials of municipalities had identified all demands during the strategic planning, reveals in Table 6.12 that 75% of the respondents agreed that the municipal management had identified all the demands of the district municipality during the strategic planning. The researcher is of the understanding that if demands are identified and planned for at the beginning of the financial year, they will be procured at the right price, and be paid for within that financial year. The researcher is of the opinion that the 75% of respondents who agreed are probably afraid to state the truth. The researcher observed that this is not the case with Free State municipalities. It was indicated in Table 5.9 of the comparative analysis of the amount owed by the Free State municipalities to the creditors that an amount of R22.1 million at the end of the fourth quarter of 2015/2016 and R31.4 million at the end of the fourth quarter of 2016/2017 were owed to creditors by the Free State municipalities. One could argue that the amount owed by the Free State district and affiliated municipalities to the creditors and suppliers is indicative of deeply rooted procurement and SCM difficulties in municipalities that can be related to unidentified and unplanned purchases of goods, services and works. This confirms that not all needs are identified at the strategic planning of the municipalities; hence, payment is not done within the financial year it was budgeted for.

Chapter two, Section 2.5.12 indicates that the National Treasury (RSA, 2017a) is intended to benefit targeted groups and SMMEs (also classified as EMEs and QSEs in *BBBEEA*, RSA, 2003 and the Codes of Good Practice). In addition to the above, the *BBBEEA* (RSA, 2003) requires that goods and services be procured from a specific BBBEE level, EME or QSE. Section 2.5.12 further provides that Regulation 9 of the National Treasury (RSA, 2017a) forces organs of state, where feasible, to identify bids above R30 million and ensure that the successful bidder sub-contract 30% of the contract value to promote the categories of EMEs or QSE, which are 51% owned by either blacks, black youth, black women, black people with disabilities, black people living in rural or underdeveloped areas or townships, cooperatives owned by black people, and black people who are military veterans.

There was a lack of transformation for these sectors. The researcher is of the opinion that during the strategic session, a municipality must determine which needs are to be procured from SMMEs or established suppliers.

6.7.5.2 Summary of interpretations of responses to Questions 2.2–2.3 and Question 3.2

The purpose of these questions was to determine whether the municipal management procured needs on the approved procurement plan, and whether the procurement plan is aligned with the approved budget. As indicated in Table 6.12 regarding Question 2.2, regarding approving the procurement plan prior to procurement, 80% of the respondents agreed that the municipal management approved the procurement plan prior to procurement. The researcher is of the opinion that the 80% of the respondents who agreed were most likely afraid to state the truth. The researcher is of the understanding that if needs are planned for prior procurement and aligned with the approved budget, suppliers will be paid within 30 days of delivery. This, however, is not the case for suppliers doing business with district and affiliated municipalities in the Free State Province. In Chapter five of this study it was indicated in Table 5.8 that in the fourth quarter of 2016/2017, the Thabo Mofutsanyana, Xhariep and Lejweleputswa district municipalities recorded the highest outstanding amount owed to creditors at R8 295 000, R3 306 000 and R850 000 respectively. The amount owed to creditors in the Thabo Mofutsanyana district increased, as did the payment cycle from 91 to 120 days.

As shown in Table 6.12, Question 2.3, and in Table 6.15 concerning Question 3.2, which probed whether the procurement plan was aligned with the approved budget, and if commodities, services and works procured are stated in the procurement plan, 80% of the respondents agreed that the municipal management aligned the procurement plan with the approved budget, and 75% agreed that the procured commodities were in the procurement plan. Therefore, the majority of respondents agreed that the procurement took place within the budget. The researcher is of the understanding that if needs are aligned with the approved budget, creditors will be settled within 30 days of receiving undisputed invoice. However, this is not the case for suppliers doing business with district and affiliated municipalities in the Free State province. In Chapter five of this study it was shown in Table 5.5 that in the first quarter of 2016/2017, the Thabo Mofutsanyana and Xhariep district municipalities had the highest outstanding amount owed to creditors at R16 324 000 and R2 851 000, respectively. The amounts owed by Thabo Mofutsanyana and Xhariep have been outstanding for more than a year. The opinion of the researcher is that outstanding amounts owed to suppliers and creditors of municipalities for more than a year are indicative of challenges related to the procurement plan and budget and cash flow in municipalities. Procuring goods, services and construction work that are not on the approved procurement plan and are not aligned to the approved budget exhausts the cash flow in municipalities. In Chapter four of the study, it was explained that municipalities are required to approve the procurement plan and align the approved procurement plan with an approved budget. This will ensure that the municipality procures goods, services and works planned and budgeted for. This will further contribute to prompt payment of suppliers and enhance the procurement practices in the district municipalities of the Free State Province, as procurement will be within the budget.

6.7.5.3 Summary of interpretations of responses to Question 2.4, 2.5 and 3.1

The purpose of the questions was to determine if the municipal officials procured goods, services and work from an established list of reliable SMMEs. As indicated in Table 6.12 concerning Question 2.4 and in Table 6.15 regarding Question 3.1 regarding establishing a list of reliable SMMEs, and selecting few reliable SMME suppliers to do business with municipalities, 75% of the respondents agreed that the municipal management established a list of reliable SMMEs. In addition, 75% of respondents similarly agreed that few reliable suppliers were selected to do

business with municipalities. The researcher is of the opinion that 75% of the municipal officials who responded to the questionnaire were most likely afraid to state the truth, namely that the municipality did not establish a list of reliable SMMEs and that suppliers were not selected from the said list. In Section 6.5.3.7 of this chapter it was indicated that 8% of suppliers wrote off an amount between R1 001 and R10 000; almost a third (34%) of suppliers wrote off outstanding amounts between R10 001 up to R500 000; and 17% of suppliers wrote off outstanding amounts of more than R500 000. The suppliers that wrote off payment owed by municipalities could be suppliers who supplied goods and services to municipalities at an unacceptable time and the resources were delivered with defects; consequently, the municipality did not pay the invoices. The researcher is of the opinion that the amount that suppliers wrote off could be indicative of the exceptional challenges rooted in the experience, skills and capability of suppliers doing business with municipalities, which affects services rendered by suppliers.

Chapter three, Section 3.10 of this study provided factors that should be considered whilst selecting suppliers to be included on the CSD of reliable SMMEs. It was mentioned that the objective of establishing a list of reliable SMMEs is to reduce turnaround time and costs, and increase quality of goods, services and works of suppliers doing business with municipalities. The reduction in delivery time saves money and storage expenses. Each hour or day not spent producing the goods or services saves the supplier money that could have been spent on labour and operating expenses. The reduced turnaround time increases the opportunity for suppliers to use the time saved to develop a better product, thus increasing the quality of goods, services and works supplied to municipalities. One could further argue that selecting suppliers from the CSD list of reliable SMME suppliers could provide municipalities with exceptional quality of goods, services and construction work each time the supplier is contracted by a municipality. Supplying quality goods, services and works saves the time and money of a municipality that could be spent on counting and inspecting items for quality. Doing business with a selected reliable supplier will culminate in healthy relationships. Managing these relationships will result in cost cutting and retaining the needed cash over time. The Municipal SCM Regulation 14 of the *MFMA* (RSA, 2003) and the National Treasury (RSA, 2016f) require that price quotations be invited and accepted from prospective suppliers listed on the CSD. Thus, municipalities and municipal entities are not allowed to award any bid for price quotations to a bidder not registered on the CSD.

6.7.5.4 Summary of interpretations of responses to Question 2.6

The purpose of the question was to determine if the municipal management ensures proper segregation of duties in order to avoid fraud and corruption, which could run down the cash flow of a municipality. Table 6.12 concerning Question 2.6, relating to whether there is proper segregation of duties in the SCM Unit, reveals that 80% of the municipal officials agreed that there is proper segregation of duties in the SCM unit. The researcher is of the opinion that the 80% of the respondents who agreed may not be being truthful. Table 5.1 in Chapter five show that there was also a perceived rapid increase in terms of the total amounts owed to creditors in each quarter of the 2015/2017 financial years. For instance, the total amount owed to creditors in the first quarter of 2015/2016 increased from R4,7 million to R5,3 million in the second quarter and then to R6,6 million in the fourth quarter. The same trend in 2015/2016 was recorded in the first, second and fourth quarter of 2016 /2017. In Section 3.6 of Chapter three of this study it was mentioned that public institutions, of which municipalities cannot be excluded, deviated from the National Treasury Regulations to obtain tenders. Although the National Treasury (RSA, 2011c) and the National Treasury (RSA, 2017a) allow deviations from the procurement and SCM regulations in exceptional circumstances, public institutions misused this clause to justify fruitless and wasteful expenditure, including corruption with the allocation of tenders. Another concern is that corruption may involve awarding of contracts to a supplier that does not meet the requirements, and as a result provides poor quality goods and services at excessive prices. This may have led to an increase of the trade creditors' book of municipalities.

6.7.5.5 Summary of interpretations of responses to Question 2.7

Question 2.7 describes how CSD can be used for radical transformation of local SMMEs.

This section of the questionnaire was designed to elicit more information on municipal officials' intention to use available resources such as CSD to develop local SMMEs. From Table 6.13 it can be determined that municipal officials have differing views regarding how the CSD can be used for radical transformation of local SMMEs.

In Section 6.6.5.2.5 the respondents indicated that four out of 25 suppliers had an annual income of more than R5 million. This clearly indicates that most suppliers doing business with

municipalities are EME. It was mentioned in Section 2.5.12 of Chapter two of this study that CSD categorises registered suppliers in terms of their annual income, such as EME and QSE, with at least 51% ownership by black people, including black people with disabilities, black women and those living in rural or underdeveloped areas or townships as well as black youth, black military veterans and cooperatives owned by blacks. The municipal management may decide to select certain categories of suppliers from the CSD and prequalify them for particular contracts for periods of six months or more with a view to developing (Hugo *et al.*, 2002:162) and forming relations (Wisner *et al.*, 2012:55-56) with these suppliers, which will radically transform their socio-economic conditions.

In light of the above, Table 6.13 shows that a total of four municipal officials, whose combined score equals 29%, preferred that information on the CSD be classified according to the geographic data of suppliers, another indicated information should be sorted according to ward to ward and town to town, and the third preferred classification by area, district, local and/or town only, that is, by geographical location. This would make it easier to award business. A total of 7% of the municipal officials held that the CSD caters for all municipalities in the country, which meant economic transformation for suppliers within a specific area is not promoted effectively, since suppliers from other municipalities are not prevented from participating in the tender processes of a municipality.

Municipal officials had differing opinions about how the CSD could transform local SMMEs. Most responses, however, clearly show that there is a need to develop a framework for the management of suppliers that can be used by all municipalities of the Free State Province, in order to have a common approach towards the development of local SMMEs. The researcher is of the view that with a common approach it will be easy to assess and monitor the implementation thereof and provide remedial actions, where necessary.

6.7.5.6 Summary of interpretations of responses to Question 3.3

The question relating to whether the BBBEE points awarded to sample SMMEs doing business with municipalities assisted in accelerating their socio-economic conditions, indicates in Table 6.15 that 90% of the municipal officials agreed that 20 and ten points for BBBEE status levels assisted in accelerating socio-economic conditions of suppliers. The researcher is of the opinion

that the 90% of respondents who agreed were probably afraid to state the truth. This view is based on the information from Section 6.5.3.1 of this chapter, which indicates that 48% of the respondents doing business with districts and one affiliate of each district municipality experienced non-payment of invoices in the last five years. Section 6.5.3.2 of this chapter indicates that 48% of the respondents doing business with districts and one affiliate of each district municipality experienced late payment of invoices in the last five years. Figure 6.8 indicates that the majority of the respondents (56%) doing business with municipalities were still in an infant stage (between one to five years), which points towards their need to be developed to become established companies. The researcher is of the understanding that if SMMEs doing business with a district and one affiliate of each district municipality of the Free State Province are still in an infant stage and experienced late payment and non-payment of invoices, the BBBEE points awarded to these SMMEs did not assist in accelerating their socio-economic conditions. Instead, it bankrupted these suppliers, which could lead to these suppliers providing poor quality goods and services and charging excessive prices to compensate for non-payment and late payment.

6.7.5.7 Summary of interpretations of responses to Question 3.5

The purpose of the question was to make municipal management aware that valuable relationships can be formed with SMME suppliers of the transversal contracts arranged by other organs, where sharing of information may be beneficial in terms of cost reduction, resulting in retaining the much-needed cash. As indicated in Table 6.15 concerning Question 3.5, the majority of the municipal officials (80%) agreed that the transversal contracts arranged by the OCPO assists municipalities to form valuable relationships with contracted SMMEs. The researcher is of the understanding that arranging new contracts with new suppliers also involves high costs. It was argued that by participating in contracts arranged by other organs of state it can assist a municipality to avoid unnecessary costs by sharing of information that may be beneficial in terms of cost reduction, which could result in retaining the much-needed funds.

6.7.5.8 Summary of interpretations of responses to Question 3.6

The purpose of the question was to make the municipal management aware of the benefits of continuously improving the performance of SMMEs, using cost-control processes that will leave more cash in the hands of municipalities. Table 6.15 show that 85% of the respondents agreed that

the municipal management had continuously improved the performance of SMME suppliers throughout the duration of the contract. The researcher is of the opinion that the 85% of respondents who agreed were most likely afraid to state the truth. The researcher's argument is based on the results of suppliers who responded to the question enquiring about the length of time it takes a municipality to make payment. It is shown in Section 6.5.3.4 in this chapter that the combined percentage of 42% of suppliers waited between 61 and 120 days to receive payment. The findings also show that 8% of suppliers were paid after a period of 120 days. Section 6.5.3.5 indicates the hours that suppliers spent in a week pursuing late payments: 17% of the suppliers spent less than an hour a week to pursue late payments, 8% spent 1–2 hours, 25% spent 3–4 hours, 15% spent 5–6 hours. The remainder (25%) of the suppliers spent more than six hours a week pursuing late payments at their district municipality. Consequently, 67% of suppliers spend more than three hours a week pursuing late payments by municipalities. One could argue that this situation implies poor customer service and relations between a municipality and a supplier. This was also indicated in Figure 6.20, which shows that 80% of the respondents (suppliers) agreed that late payment damaged their business and personal reputation. The above stated responses from suppliers indicated that municipalities do not continuously improve performance of the SMME supplier throughout the duration of the contract.

6.7.5.9 Summary of interpretations of responses to Question 3.7

The purpose of this open-ended question was to investigate the opinions of the municipal officials regarding the effect of late or non-payment of SMMEs suppliers on the local economy. Table 6.16 above provides findings on the manner late or non-payment of SMME suppliers affect the local economy, and 28% of the municipal officials referred to the sustainability of the business. Businesses that are not sustainable are unable to affect the economy positively. Approximately 17% of the municipal officials mentioned that borrowing money or acquiring loans from banks affected business' ability to pay their municipal rates and taxes. Inability to pay rates affects the revenue of the municipality, which further negatively affects the service delivery. The above views indicate that municipal officials are aware of the negative results late and non-payment of SMMEs has on local economy.

In Section 6.5.4 of this chapter, 80% of respondents indicated that late payment damaged their business. This clearly indicates that the effect of late and non-payment of suppliers affects businesses negatively. It is indicated in the summary under Table 5.3 of Chapter five of this study that Minister Jeff Radebe, in the National Assembly in November 2016, spoke against the late and non-payment of invoices. He stated that the deliberate late payment of suppliers by government institutions, including municipalities, weakened SMMEs, strained relationships, and weakened the economy and the government aims stated in the National Development Plan, to create 11 million jobs by 2030. It can be concluded that there is a need for the development of the proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province, in order to assist with late and non-payment of SMME suppliers.

6.7.5.10 Summary of interpretations of responses to Questions 4.1 to 4.3

The intention of Questions 4.1–4.3 was to bring to the attention of the municipalities how some of the inventory holding costs deplete municipal funds. The questions related to whether the municipal management instituted strategies to manage inventories in the past three years, whether the inventory management strategies in place reduced the costs of holding inventory, and whether the reduced costs created adequate cash reserve for prompt payment of SMMEs suppliers (Chapter three, Section 3.4). Table 6.18 reveals that 85% of respondents agreed that there were strategies in place to manage inventory, 85% of respondents agreed that strategies in place reduced costs of holding stock, while 60% of respondents agreed that reduced costs created adequate cash reserves for prompt payment of suppliers. The researcher is of the opinion that the opinion of 60% of the respondents who agreed that reduced costs created adequate cash reserve for prompt payment of suppliers, might not be true. Table 5.9 in Chapter five clearly indicated that an amount of R22,1 million at the end of the fourth quarter of 2015/2016 and R31,4 million at the end of the fourth quarter of 2016/2017 were owed to creditors of Free State municipalities. These amounts confirm that there are cash flow constraints in municipalities of the Free State Province.

6.7.5.11 Summary of interpretations of responses to Questions 4.4 to 4.6

The purpose of Questions 4.4–4.6 was to bring to the attention of the municipalities some of the measures as explained in Chapter two, Section 2.8 of this study, that assist with processing of

invoices for payment within a particular period. The questions related to whether the automated procurement system in place led to shorter delivery times; whether the municipal management has measures in place to process invoices for payment within a particular timeframe; and whether there are instances where the period for late payment to creditors exceeded 120 days in the past three years. Table 6.18 reveals that 45% of respondents agreed that the automated procurement system in place led to shorter delivery times, 40% disagreed and 15% remained undecided. A total of 85% of the respondents indicated that their municipalities had measures in place to process invoices for payment within a particular timeframe. A further 65% agreed that there were instances where the period for late payment to creditors exceeded 120 days in the past three years; 30% disagreed; and 5% remained undecided. Concerning Question 4.6, 65% of respondents agreed that there were instances where late payment exceeded 120 days. This finding is in contradiction with the results of the suppliers who responded to the question that enquired about the length of time it took a municipality to make a payment. As shown in Section 6.5.3.4, the combined percentage of 42% of suppliers waited between 61 and 120 days to receive payment and 8% of suppliers were paid after a period of 120 days. However, it was clearly stated in Chapter three and Chapter four of this study that in terms of Section 65(2)(e) of the *MFMA* (RSA, 2003) municipalities had to pay all outstanding monies owed to SMME suppliers within 30 days of receiving a valid invoice.

6.7.5.13 Summary of interpretations of responses to Questions 5.1 to 5.5

The purpose of these questions was to elicit information about the manner in which the municipality dealt with disposal management. Table 6.20 show with regard to Question 5.1 that 55% of the respondents disagreed that municipal management appointed a disposal committee in the past three years, while 35% agreed and 15% remained undecided. In Table 6.20 concerning Question 5.2, 55% of respondents disagreed that the appointed disposal committee disposed commodities according to a disposal strategy in place; 35% agreed; and 15% remained undecided. Table 6.20 indicated that for Question 5.3, 65% of respondents disagreed that experienced SMME suppliers were contracted to dispose of all redundant commodities. In Question 5.4, 70% of respondents agreed that municipal management maintained an updated database of redundant material in the past three years. In total, 50% of the municipal officials indicated that they did not know if the recent OCPO reforms improved disposal management, which is a concern. This can be attributed to Chapter three, Section 3.3.5 of this study, which stated that most municipalities

did not have a disposal committee in place, meaning the management of municipalities did not use SMMEs suppliers to dispose unwanted goods and services for the development of the local economy and socio-economic conditions of communities. It was further mentioned in Chapter three (Section 3.5) of this study, that the National Treasury (RSA, 2005a:96-97) emphasises the importance of the appointment of a disposal committee that will approve disposal strategy, appoint experienced SMMEs who will dispose according to disposal strategy, and maintain the database of redundant material to improve disposal management within a municipality.

6.8 SECTION C: MUNICIPAL FINANCIAL MANAGEMENT

This section presents the empirical results of the financial management within the district municipalities of the Free State. Six items relating to municipal financial management practices were rated by the municipal officials on a five-point Likert scale, where 1 = *strongly agree*, 2 = *agree*, 3 = *don't know*, 4 = *disagree* and 5 = *strongly disagree*. Table 6.22 and Figure 3.34 below indicates the responses of 20 municipal officials to the six items related to financial management practices.

Table 6.22: Municipal Financial Management (n = 20)

6. FINANCIAL MANAGEMENT	Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
	F	%	F	%	F	%	F	%	f	%
Q 6.1 The municipal management incurred irregular expenditure due to interest and penalties on late payment.	5	25	10	50	3	15	2	10		
Q 6.2 The municipal management has implemented credit control and debt management policies in the past three years.	8	40	10	50					2	10
Q 6.3 The municipal management has measures in place to hold officials accountable for transgressions.	3	15	12	60	2	10	3	15		
Q 6.4 Lack of customer service strategy causes municipal management to respond slowly to disputable invoices.	1	5	9	45	1	5	1	45		
Q 6.5 Long term contracts with Small, Medium and Micro-Enterprise suppliers created opportunities for the municipality to save costs in the past three years.	1	5	10	50	4	20	3	15	2	10
Q 6.6 The municipal management modified contracts without tabling the reasons in the Council.			4	20	2	10	8	40	6	30

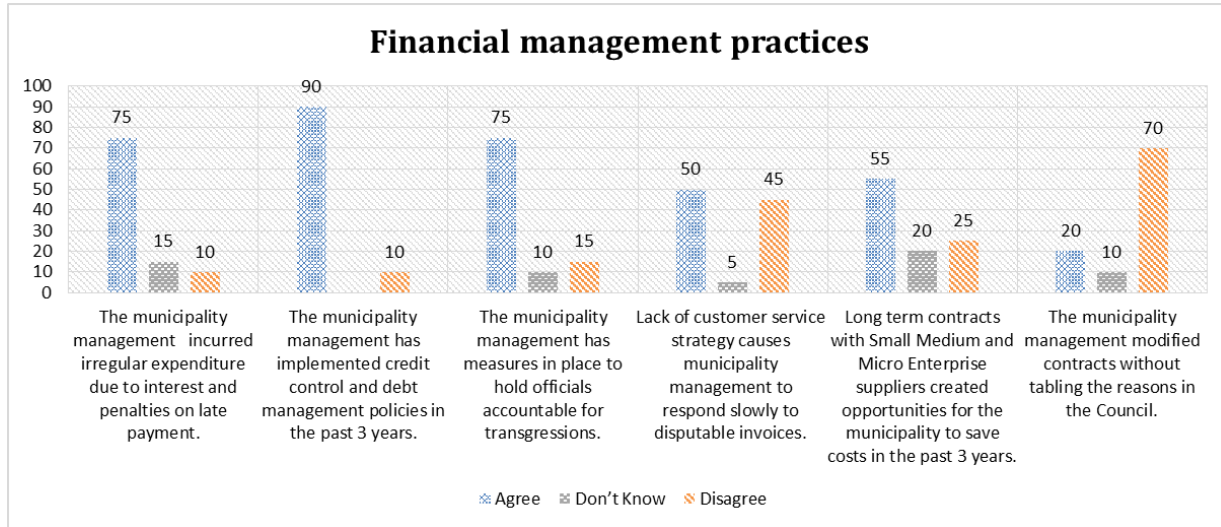


Figure 6:34: Financial management practices (n = 20)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* was combined and was referred to as *disagree*, and a response of *agree* or *strongly agree* was combined and was referred to as *agree*.

Table 6.22 and Figure 6.34 above indicate that 75% municipal officials agreed that the municipal management incurred irregular expenditure due to interest and penalties on late payment; 90% of municipal officials agreed that the municipal management had implemented credit control and debt management policies in the past three years. A total of 75% of municipal officials agreed that the municipal management had measures in place to hold officials accountable for transgressions; while 50% of municipal officials agreed that lack of customer service strategy caused municipal managements to respond slowly to disputable invoices, which is a concern. A total of 55% of municipal officials agreed that long-term contracts with SMMEs suppliers created opportunities for the municipality to save costs in the past three years, while 30% of municipal officials agreed that the municipal management modified contracts without tabling the reasons in the municipal council. Thus, the majority of the municipal officials agreed that the municipal management incurred irregular expenditure due to interest and penalties on late payment to suppliers, while the majority of the municipal officials agreed that municipal managements had measures in place to hold officials accountable for transgressions. One could argue that although there are measures in place, the late payment of suppliers continues. A reliability analysis on financial management

practices comprising six items results in a Cronbach's alpha (α) of 0.52. Items one, four and six were reversed for the analysis so that the opposite is true. The scale had a poor internal consistency ($\alpha < 0.60$).

In Table 6.23 below is a summary on how the municipal management avoid variation and or expansion of contracts (Open-ended Question 6.7). The 20 municipal officials gave 16 responses, which is summarised in the table.

Table 6.23: How municipal management avoids variation and or expansion of contracts (n = 16)

How the municipal management avoids variation and or expansion of contracts	Frequency	Percentage
Amendments of varying of contract cannot be regarded valid unless amended in writing and signed by both parties but only after the provisions of section 116(3) of the MFMA are affected.	1	6.3
By creating a clear specification.	1	6.3
By following the process whereby, the accounting office approves variation.	1	6.3
By implementing and adhering to contract management.	1	6.3
By looking at all that is needed when it comes to specifications, unless there is unforeseen disaster.	1	6.3
Except by resolution of the council of municipality, no variation/expansion of contracts shall be of any force or effect unless confirmed in writing and signed by the parties and then such shall be effective only in the specific instance or given.	1	6.3
Interest and penalties result in paying more.	1	6.3

How the municipal management avoids variation and or expansion of contracts	Frequency	Percentage
No system in place, most of these incidents of variation/extortion of contract are normally unforeseen circumstances, if proper planning was performed.	1	6.3
Scope of work must cover all aspects in terms of the specifications, and the provision of contingencies is used to avoid variation.	1	6.3
The municipality has implemented a contract management system to deal with these issues.	1	6.3
The municipality has a contract register to assist with the management of contracts.	1	6.3
The municipality is doing its level best to conduct feasible study in all this old projects and fix damages before the changes of weather to avoid variation.	1	6.3
The municipality only approves variation/expansion of contracts only if there is other source of funding for the contract and not funded from the municipalities own source of funding.	1	6.3
There are always technical issues that are advanced as reason for variation orders. No adequate contracts to avoid variation on infrastructure contracts.	1	6.3
Through application of strategic procurement in which proper planning of the project is initiated at the beginning by user department wherein specifications are well defined.	1	6.3
We ensure that service providers bid on the complete scope unless it is unavailable circumstance.	1	6.3

From Table 6.23 above, it can be determined that municipal officials provided differing views regarding how municipal management avoid variation and or expansion of contracts. In Chapter three, Section 3.3.6 in this study, Donold (2013:iv) views variation order of contract as the additions, omissions, alterations and substitution in terms of quality, quantity and schedule of work. Donold (2013:iv) further provides that the main effect of the variation of contract is the increase in the project cost, where the solution to avoid variation or expansion of contract would be to have very good and proactive communication between all parties: the client (municipality), contractors (suppliers) and consultants, throughout the period of the project, from start to finish.

In terms of the Table 6.23, four municipal officials whose combined score equals 25% indicated that the scope of work had to cover all aspects, and specifications had to be clear and well defined. The other three municipal officials with a total score of 18.8% indicated that adherence to contract management would assist in avoiding variation of orders, while 6.3% of the respondents held that if two parties to the contract both sign the amendments to the contract that would validate the variation of contract. The other 12.5% indicated that the accounting officer's or council's approval of the variation contract would make it valid, and 6.3% stated that only proper planning would assist in avoiding the variation of contract.

The question was designed to elicit more information from municipal officials, and to have an idea of how far municipal officials can go to save costs. The question was also intended to highlight to the municipal management that practices such as variation of contract seriously undermined sound financial management and ultimately eroded scarce resources intended to improve service delivery. Municipal officials had different opinions about how municipal management avoided variation or expansion of contracts. However, based on responses, district municipalities and the selected municipalities have to adhere to the requirements of the *MFMA* (RSA, 2003). Practices such as variation of contracts are a serious breach of the *MFMA* (RSA, 2003) and erode scarce financial resources that are intended to improve service.

6.8.1 Summary of interpretations of responses to Questions 6.1 to 6.5

The purpose of these questions was to assist municipal management in identifying the root causes of their municipalities' financial challenges. With regard to Question 6.1 as depicted in Table 6.22, municipalities incurred irregular expenditure due to interest and penalties on late payment. A total

of 75% of respondents agreed that this was happening. This finding is supported by Table 5.2 of Chapter five, which indicated that at the end of the fourth quarter of the financial year 2014/2015, trade creditors in the 61–90 category were owed a total amount of R742, 940 million, which escalated to R9, 652, 521 billion during the same period of 2015/2016. The R9 billion almost doubled in the same period of 2016/2017, with suppliers owed R15, 874, 323 billion. These amounts include interest on non-payment of invoices, increasing cash-flow difficulties.

With regard to Question 6.2, municipal management implemented credit control and debt management policies in the past three years. Of respondents 90% agreed that there were policies in place. From the findings of the semi-structured questionnaire, Figure 6.20 of this chapter indicated the effects of late payment of municipalities on suppliers and creditors. The majority of respondents indicated that late payment caused incomplete projects due to bankruptcy. This damaged business and personal reputation and led to legal battles with their suppliers and subcontractors. Since most of the suppliers encountered the challenges of late payment, even though credit control and debt management policies were in place, one could argue that the policies may be adding to the financial challenges of municipalities. Municipalities needed systems to manage suppliers to contribute to effective public procurement practices and financial management.

Regarding Question 6.3 as show in Table 6.22, the municipalities had measures in place to hold officials accountable for transgressions; and 75% of respondents agreed that this was indeed happening. This finding is in contradiction with the findings of the Auditor-General as discussed in Section 4.6.15 of this study, that the Free State municipalities experienced irregular expenditure of R675 million, due to deviations in relation to the use of contracts secured by other organs of state without meeting the requirement of SCM Regulations 32 (RSA, 2005b). This indicated that irregular expenditure was not always adequately investigated to identify the officials to be held accountable for the losses, resulting in a year-on-year increase in the balance. The Auditor-General further provides in Section 2.3.2 of this study, that a culture of no consequences has been created through leadership's involvement in the decision-making that led to transgressions. This culture is one of the root causes of local governments' financial challenges where municipalities become more exposed to harsh-reality cash-flow limitations, which in turn result in the late payment of suppliers (AGSA, RSA, 2017:56-57).

Question 6.4 indicated that lack of a customer service strategy caused municipal management to respond slowly to disputable invoices, to which 50% of respondents agreed to. This is supported by Chapter four, Section 4.7.3, which states that debt incurred by municipal consumers (Free State Provincial Treasury, 2014:6-20) indicates possible reasons why this type of debt arises. Lack of customer service mechanisms was indicated as reinforcing non-payment and therefore contributed to municipalities' financial challenges.

6.8.2 Summary of interpretations of responses to Question 6.8

The question was designed to elicit more information from municipal officials and to have an idea of how far municipal officials could go to save costs. The question was also intended to highlight to the municipal management that practices such as variation of contract seriously undermined sound financial management and ultimately eroded scarce resources intended to improve service delivery.

From Table 6.23 in this chapter it can be determined that municipal officials provided differing views on how municipal management avoided variation and/or expansion of contracts. Four municipal officials whose combined score equalled 25% indicated that the scope of work had to cover all aspects and specifications and be clear and well defined. Three municipal officials, with a total score of 18.8%, indicated that adherence to contract management would assist in avoiding variation of orders, while 6.3% of the respondents held that if two parties to the contract could both sign the amendments to the contract, that would validate the variation of contract. The other 12.5% indicated that the accounting officer or council's approval of the variation contract would make it valid, while 6.3% provided that only proper planning would assist in avoiding variation of a contract. Municipal officials had different opinions about how municipal management can avoid variation or expansion of contracts. In Section 3.3.6 of Chapter three of this study it was mentioned that variation orders or contracts refer to additions, omissions, alterations and substitution in terms of quality, quantity and schedule of work. It was further emphasised in the literature that the main effect of the variation of contract is the increase in the project cost, where the solution to avoid variation or expansion of contract would be to have very good and proactive communication between all parties, the client (municipality), contractors (suppliers) and consultants throughout the period of the project, from start to finish.

6.8.3 Discussion and interpretation of inferential statistical findings on the effect of municipal managers' experience on financial management practices

The effect of experience of municipal officials on municipal financial management practices within local government is investigated. Table 6.8 and Figure 6.26 show that more than 70% of municipal officials (n = 14) within local government have experience concerning SCM. The frequency distribution of disposal management practices from Table 6.21 was summarised by calculating a mean score for each of the six items (*strongly agree* = 1, *agree* = 2, *don't know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the subsection. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.24 below the mean and standard deviation (SD) scores for each item in the municipal financial management practices subsection is summarised for municipal officials with and without experience concerning SCM.

Table 6.24: Effect of experience of municipal officials on municipal financial management practices (n = 20).

Municipal Financial Management Questions	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean ± SD	Mean ± SD	
Q 6.1 The municipal management incurred irregular expenditure due to interest and penalties on late payment.	2.21 ± 1.05	2.67 ± 1.86	0.4937
Q 6.2 The municipal management has implemented credit control and debt management policies in the past three years.	1.86 ± 11.03	2.00 ± 1.55	0.8093
Q 6.3 The municipal management has measures in place to hold officials accountable for transgressions.	2.14 ± 0.95	2.50 ± 0.84	0.4363

Q 6.4 Lack of customer service strategy causes municipal management to respond slowly to disputable invoices.	2.71 ± 0.99	3.33 ± 1.21	0.2465
Q 6.5 Long term contracts with Small, Medium and Micro-Enterprise suppliers created opportunities for the municipality to save costs in the past three years.	2.57 ± 1.09	3.17 ± 1.17	0.2871
Q 6.6 The municipal management modified contracts without tabling the reasons in the Council.	3.64 ± 1.08	4.17 ± 1.17	0.3449

Overall those municipal officials without SCM experience had a higher level of disagreement for each item in the municipal financial management practices subsection. This higher level of disagreement was not significant (all p-values > 0.05), and consequently current municipal officials' experience in SCM had no effect on the six items for municipal financial management practices. However, Chapter four of this study indicates that poor debt collection and an increase in outstanding debts year-on-year are evidence to the fact that municipalities have a challenge in the collection of outstanding debts. This challenge could be as a result of inexperienced municipal official's capacity to develop policies that will assist with collection of debt.

6.9 SECTION D: SCM PRACTICES AND TOOLS

This section presents the empirical results of the SCM practices and tools within the district municipalities of the Free State. Five items relating to SCM practices and tools were rated by the municipal officials on a five-point Likert scale, where 1 = *strongly agree*; 2 = *agree*; 3 = *don't know*; 4 = *disagree*; and 5 = *strongly disagree*. Table 6.25 below indicates the responses of 20 municipal officials to the six items related to SCM practices and tools.

Table 6.25: SCM Practices and Tools (n = 20)

SCM practices and tools items	Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
	f	%	F	%	f	%	f	%	f	%
Q 7.1 The municipality had practices and tools for management of Small Medium and Micro-Enterprise suppliers in place in the past three years.	1	5.26	11	57.89	2	10.53	5	26.32		
Q 7.2 The municipal management employed rigorous supplier selection and evaluation to create list of dependable SMME suppliers in the past three years.	1	5.26	9	47.37	1	5.26	8	42.11		
Q 7.3 The municipal management empowered SMME suppliers to manage business relationships.	1	5.26	15	78.95	2	10.53	1	5.26		
Q 7.4 The municipal management ensured that SMME suppliers implemented tools that enhanced managerial capability and service quality.	1	5.26	9	47.37	2	10.53	7	36.84		

Q 7.5 The municipal management had effective tools to measure Small, Medium and Micro-Enterprise performance.	1	5.26	13	68.42			5	26.32		
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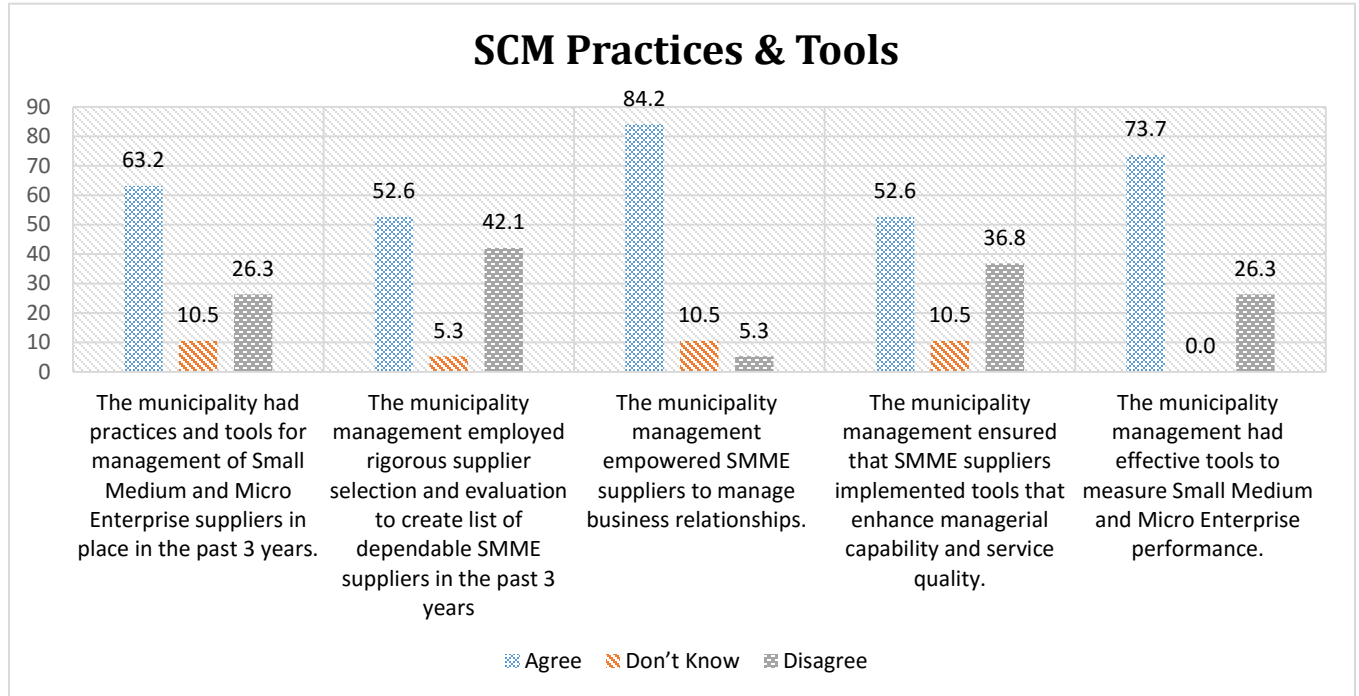


Figure 6.35: SCM practices and tools (n = 20)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* will be combined and will only be referred to as *disagree*, and a response of *agree* or *strongly agree* will be combined and will only be referred to as *agree*. Table 6.25 above shows that 63.2% of municipal officials agreed that the municipality had practices and tools for management of SMMEs suppliers in place in the past three years. A total of 52.6% of municipal officials agreed that the municipal management employed rigorous supplier selection and evaluation to create a list of dependable SMME suppliers in the past three years, which is a concern. In Chapter 3.6 of this study it was emphasised that when selecting suppliers, municipalities should take into account the quality, cost and reliability of the suppliers. A majority of 84% of municipal officials agreed that the municipal management empowered SMME suppliers to manage business relationships. In Section 3.6 of Chapter three of this study, the factors to improve supplier relationships entailed trust, capabilities, performance, continuous improvement, communication and management support. Only 52.6% of municipal officials agreed that the municipal management ensured that SMME suppliers implemented tools that enhanced managerial capability and service quality, which is a concern. Table 6.25 further shows that 73.7% of municipal officials *agreed* and *strongly agreed* that the municipal management had effective

tools to measure SMME performance. A reliability analysis on SCM practices and tools comprising five items results in a Cronbach's alpha (α) of 0.51. The scale had a poor internal consistency ($\alpha < 0.60$).

6.9.1 Summary of interpretations on responses to Questions 7.1 to 7.5

The purpose of these questions was to find out whether municipal management had measures in place to enhance the performance of existing SMME suppliers doing business with municipalities. In Section 2.5.7 of this study it was mentioned that the *PPPFA* (RSA, 2000) has turned out to be a significant vehicle by which the government of which municipalities cannot be excluded to provide economic opportunities to previously disadvantaged groups, particularly SMME suppliers to do business with government. It was further mentioned in Section 3.14 of this study Hugo and Badenhorst-Weiss (2013:290) maintain that doing business with SMME suppliers, in particular those owned by disadvantaged people from local communities, is challenging due to their limited resources. Another challenge as mentioned in Section 3.14 of this study is that that some SMME suppliers have limited capital, equipment and human resources, and they are faced with many factors that could contribute to late and non-payment of the invoices for the services they render to municipalities. In this regard, municipalities must set measures in place to select the right SMME suppliers.

With regard to Question 7.1, Table 6.25 shows that 63.15% of respondents agreed that their municipalities had practices and tools for management of SMMEs in place. Question 7.4 enquired if municipal management ensured that SMME suppliers implemented tools that enhanced managerial capability and service quality, where 52.63% of the respondents agreed and Question 7.5 explored if municipal management had effective tools to measure SMME performance.

The results in Section 6.5.2.5 regarding annual business income of the suppliers indicates that 36% of the suppliers had a combined annual income of less than R500 000, whereas 28% of suppliers had an income between R500 000 and R1 million, and 20% had an income between R1 million and R5 million. This level of annual income of suppliers indicates that SMME suppliers are still small and need municipalities to assist them to grow by implementing the framework for management of suppliers as part of public procurement practices, in order to enhance the performance of SMME suppliers.

As depicted in Figure 6.35 respondents to Question 7.2 and 7.3 agreed, with a reply of 52.63% and 84.21%, respectively, that municipal management employed rigorous supplier selection and evaluation to create a list of dependable SMME suppliers, and empowered SMME suppliers to manage business relationships. The annual income of SMME suppliers depicts a picture that municipalities did not employ rigorous supplier selection and evaluation to create a list of dependable SMME suppliers and did not empower SMME suppliers to manage business relationships. In the Section 3.9 of this study Wisner *et al.* (2012: 55-56) state that selecting the right supply partner and successfully managing these relationships over time will result in cost cutting and retain the needed cash for municipalities to pay their suppliers within 30 days, thereby growing SMME suppliers' business to boost local economies and promote the socio-economic and economic development of communities.

6.9.2 Discussion and interpretation of inferential statistical findings on the effect of municipal managers' experience on SCM practices and tools

The effect of municipal officials' experience of SCM practices and tools within local government is investigated. Previously from Table 6.8 and Figure 6.26 it was shown that 70% of municipal officials (n = 14) within local government have experience concerning SCM. The frequency distribution of SCM practices and tools from Table 6.24 is summarised by calculating a mean score for each of the 5 items (*strongly agree* = 1, *agree* = 2, *don't know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the section. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.26 below the mean and standard deviation (SD) scores for each item in the SCM practices and tools section is summarised for municipal officials with and without experience concerning SCM.

Table 6.26: Effect of experience of municipal officials on SCM practices and tools (n = 20).

SCM Practices and Tools Questions	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean ± SD	Mean ± SD	
Q 7.1 The municipality had practices and tools for management of SMME suppliers in place in the past 3 years.	2.54 ± 0.97	2.67 ± 1.03	0.7956
Q 7.2 The municipality management employed rigorous supplier selection and evaluation to create list of dependable SMME suppliers in the past 3 years.	2.77 ± 1.09	3.00 ± 1.10	0.6742
Q 7.3 The municipality management empowered SMME suppliers to manage business relationships.	2.15 ± 0.69	2.17 ± 0.41	0.9670
Q 7.4 The municipality management ensured that SMME suppliers implemented tools that enhance managerial capability and service quality.	2.77 ± 1.09	2.83 ± 0.98	0.9040
Q 7.5 The municipality management had effective tools to measure SMMEs performance.	2.54 ± 1.05	2.33 ± 0.82	0.6790

Overall those municipal officials without SCM experience had a higher level of disagreement for the first four items in the section, and municipal officials without SCM experience had a higher level of disagreement for the last item in the section. These higher levels of disagreement were not significant (all p-values > 0.05) and consequently, municipal officials' experience in SCM had no

effect on the five items for SCM practices and tools. It was emphasised in Section 3.9 of Chapter three of this study that selecting the right supplier is one of the SCM practices and tools essential for success in procurement management and SCM.

6.10 SECTION E: SCM LEGISLATION AND POLICY

This section presents the empirical results of the SCM legislation and policy within the district municipalities of the Free State. Five items relating to SCM legislation and policy were rated by the municipal officials on a five-point Likert scale, where 1 = *strongly agree*, 2 = *agree*, 3 = *don't know*, 4 = *disagree* and 5 = *strongly disagree*. Table 6.27 and Figure 6.36 below indicates the responses of 20 municipal officials to the five items related to SCM legislation and policy practices.

Table 6.27: SCM Legislation and Policies (n = 20)

SCM legislation & policy items	Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
	f	%	f	%	f	%	f	%	f	%
Q 8.1 The Municipal SCM Policy encourages collective procurement of goods and services between District and Local Municipality within the area of the same district.	4	20	8	40	1	5	6	30	1	5
Q 8.2 Preferential Procurement Regulation 2011 assisted in stimulating SMME suppliers in the past three years.	2	10	12	60	2	10	4	20		
Q 8.3 BBBEE Act, 2003 radically transformed socio-economic conditions of SMME suppliers who did business with your municipality in the past three years.	1	5	11	55	3	15	5	25		
Q 8.4 All suppliers were paid within 30 days of receipt of valid invoices in compliance with Section 65(2)(e) of the MFMA (2003) in the past three years.	3	15	3	15	2	10	6	30	6	30

Q 8.5 The municipal management has guidelines in place to manage the SMME suppliers.	4	20	13	65			1	5	2	10
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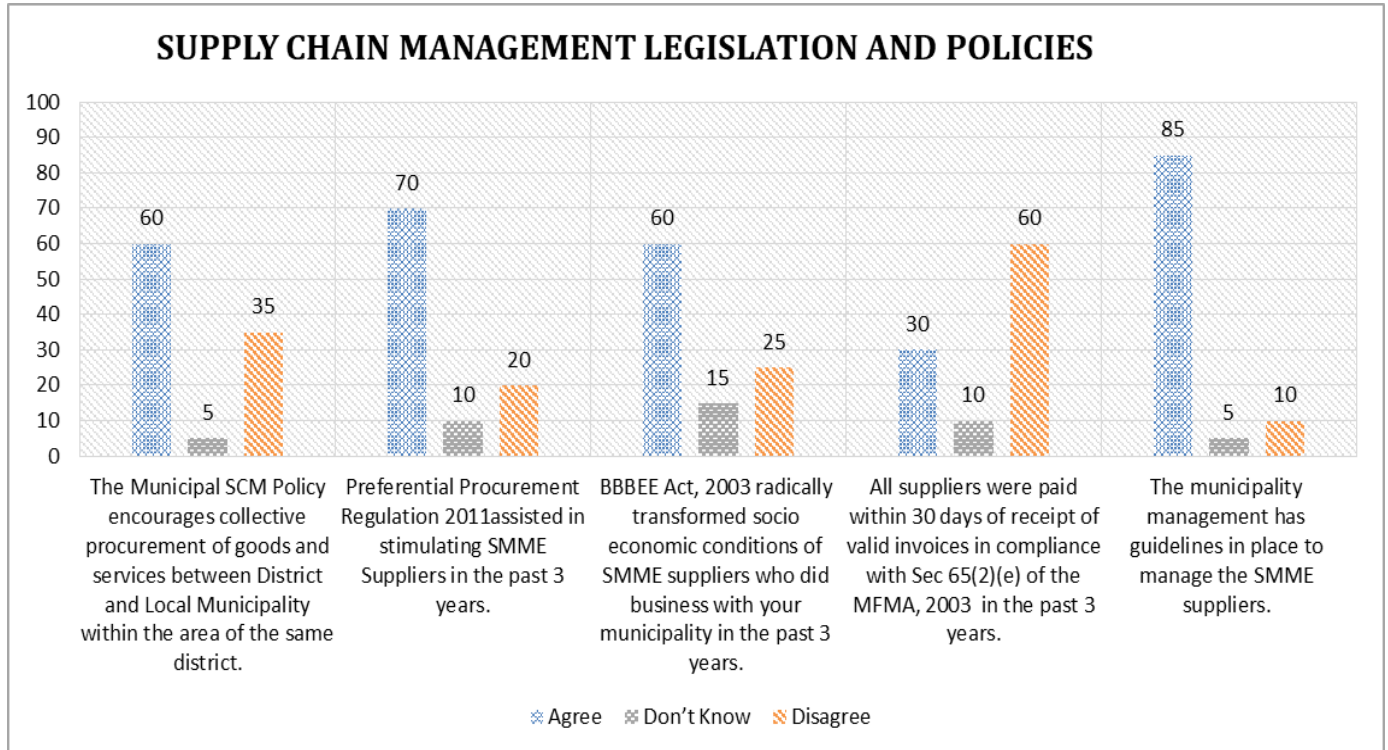


Figure 6.36: SCM legislation and policies (n = 20)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* was combined and was referred to as *disagree* and a response of *agree* or *strongly agree* was combined and was referred to as *agree*.

From Table 6.27 and Figure 6.36 it can be seen that 60% of municipal officials agreed that the Municipal SCM Policy encouraged collective procurement of goods and services between District and Local Municipality within the area of the same district. A majority of 70% of municipal officials agreed that the National Treasury (RSA, 2011c) assisted in stimulating SMME suppliers in the past three years, and 60% of municipal officials agreed that *BBBEEA* (RSA, 2003) radically transformed socio-economic conditions of SMME suppliers who did business with their municipalities in the past three years (National Treasury, RSA, 2011c). A total of 85% of municipal officials agreed that the municipal management had guidelines in place to manage the SMME suppliers. 30% of municipal officials agreed that all suppliers were paid within 30 days of receipt of valid invoices, in compliance with Section 65(2)(e) of the *MFMA* (RSA, 2003), in the past three years. This is in contradiction as provided in Section 3.14 and Section 4.6 of this study, that the

Auditor- General, warns that late payments in the Free State Province to suppliers such as Eskom and water boards contributed to most of the fruitless and wasteful expenditure of R324 million (AGSA, RSA, 2017:56-57). In Section 3.14 of this study, the Auditor-General further cautions that a total of 121 municipalities did not pay their suppliers (including SMME suppliers) within the stipulated period, while 77% of municipalities have not included the payment of suppliers within the stipulated period as a performance target, which is a concern. It is a constitutional requirement to promote social and local development of communities, and late payment of SMME suppliers is in contradiction to the legislative requirements (AGSA, RSA, 2017:29-31). A reliability analysis on SCM legislation and policy comprising five items resulted in a Cronbach's alpha (α) of 0.75. The scale had an acceptable internal consistency ($\alpha > 0.70$).

Table 6.28 below shows how the municipal officials felt that knowledge and interpretation of acts, rules, regulations and policies would influence SMME livelihoods (Open-ended Question 8.6).

Table 6.28: Influence of knowledge and interpretation of acts, rules, regulations and policies on SMMEs' livelihood (n = 20)

Q8.6 In your opinion, how will Small Medium and Micro-Enterprise's knowledge and interpretation of acts, rules, regulations and policies influence their livelihood?		
Respondents' responses	Frequency	Percentage
Improve	17	85.0
Remain the same	2	10.0
Worsen	1	5.0

A majority of 85% of municipal officials indicated that knowledge and interpretation of acts, rules, regulations and policies would improve their livelihood. This response concurs with Section 2.5 of this study, where Thai (2009:9) explains that procurement laws and regulations have to be easily accessible and known by the public, including SMMEs. The SMMEs' access to the rules and regulations contribute to transparent local government, resulting in municipal management engaging in more economic procurement and businesses such as SMMEs being able to make better decisions regarding pricing, which can give SMMEs a competitive edge and improve their livelihoods. The other 10% of municipal officials indicated that knowledge and interpretation of

acts, rules, regulations and policies by SMMEs would not influence their livelihood, and 5% indicated that it would worsen their livelihoods. This is not in line with the views of Thai (2009:9), as indicated above.

The municipal officials were also asked to motivate their answer on why knowledge and interpretation of acts, rules, regulations and policies would improve or worsen SMMEs' livelihoods. Table 6.29 below gives three explanations on how it would be worse or not affected (Open-ended Question 8.7).

Table 6.29: Reasons why knowledge and interpretation of acts, rules, regulations and policies would improve the livelihoods of SMMEs (n = 15)

Question 8.7	Frequency	Percentage
Correct and allocate knowledge and interpretation of acts, rules, regulations and policies will assist SMME's in ensuring that their business grows.	1	6.7%
If SMMEs can comply with all applicable legislations or policies, their livelihood can be improved drastically.	1	6.7%
If they know the legislation, they can indirectly hold municipalities accountable (i.e. Some SMMEs do not know that they have the right to be provided with reasons why their quotations were not accepted. As such, the municipality may continue appointing based on favouritism).	1	6.7%
If they know them they will be better equipped to apply the correctly when bidding for tenders.	1	6.7%
It will enable them to be aware of the legislative requirements and as a result, their bids will not be disqualified as a result.	1	6.7%
Knowledge is power. If SMME's understand laws and policies informing procurement, it promotes their business.	1	6.7%

Question 8.7	Frequency	Percentage
Knowledge of such could enable them to manage their business effectively and efficiently with a clear knowledge for what is expected of them.	1	6.7
Lack of knowledge of acts and regulations makes it even worse for them to be competitive, as they do not bid according to the requirements of the bid/proposal.	1	6.7
The interpretation of acts, rules and regulation will assist them to know how to place a bid or bid with the correct documents.	1	6.7
Their awareness and readiness to do business with the state have improved.	1	6.7
Their livelihood depends on the correct running/management of their business. To know that their business is regulated forces their behaviour to be conducted in a certain way that yield better outcomes. Knowledge of acts, rules etc. changes business conduct and behaviour of owners within confines of the law, e.g. prohibition of price fixing, money laundering, tax evasion, etc.	1	6.7
They now understand what is required from them to be compliant thereby increasing their chances of being awarded with bids.	1	6.7
Those who understand legislation are able to make business with the municipality and benefit.	1	6.7
Understand how to tender properly by not flouting the tender process.	1	6.7

Question 8.7	Frequency	Percentage
We conduct training for them and invite relevant stakeholders that have knowledge in the SCM issues.	1	6.7

In terms of the response in Table 6.29, six respondents whose combined score equalled 40% indicated that knowledge of acts, rules and policies would assist SMMEs to bid better or properly. This will increase their chance to be awarded bids and improve their livelihoods. The other three respondents, with a total combined score of 20%, indicated that it would assist in growing, promoting and managing their businesses better. The other 6.7% indicated that they would assist with holding municipalities accountable; another 6.7% indicated that knowledge of acts, rules and policies would assist SMMEs in becoming competitive when bidding, and yet another 6.7% indicated that knowledge of acts, rules and policies would assist SMMEs in avoiding price fixing, money laundering and tax evasion.

The question was designed to elicit more information from municipal officials in order to have an idea of municipal officials' understanding of how SMMEs' knowledge of procurement laws and regulations affects their livelihood. The question was also intended to highlight to the municipal management that SMMEs' knowledge of procurement laws and regulations would assist SMMEs in making better decisions regarding pricing, and not to charge double to compensate for the time they waited for their payment from municipalities. Table 6.30 below illustrates the reasons why knowledge and interpretations of acts, rules, regulations and policies will not affect or worsen the livelihoods of SMMEs.

Table 6.30: Reasons why knowledge and interpretation of acts, rules, regulations and policies will not affect or worsen the livelihoods of SMMEs (n = 3)

	Frequency	Percentage
Lack of knowledge of acts and regulations.	1	50.0%
The rules are being manipulated by well-established businesses which end up operating subsidiary company in the form of SMME.	1	50.0%
Most of SMMEs are uneducated and they struggle to get information and raise money to supply goods and services.	1	100.0%

From Table 6.30 above, it can be determined that not all municipal officials understood the question. These municipal officials included one participant, comprising 5% of the respondents, who indicated in Table 6.6. in this chapter that they worked for the municipality between two to three years, and two respondents (10%) who indicated that they worked in municipalities for between four to five years, and who were not knowledgeable about the importance of acts, rules and regulations and how the SMMEs’ knowledge thereof would affect their livelihood.

6.10.1 Summary of interpretations on interpretation of responses to Questions 8.1 to 8.5

The purpose of these questions was to find out if the municipality used the national legislation, or its own policies and guidelines, to improve the socio-economic conditions of SMME suppliers.

The National Treasury (RSA, 2005b) as well as the National Treasury (RSA, 2017a) permit municipal managements to procure goods and services for the municipality or municipal entity under a contract secured by another organ of state, but only if competitive bidding processes were followed. The municipality or entity believe that such a contract was validly procured as there are obvious discounts or benefits for the municipality or entity; and that other organs of state and the SMME supplier entered into a valid contract. In this regard, municipal management must comply with national treasury legislation, as well as their own SCM policy.

With regard to Question 8.1, Figure 6.36 show that 60% of the respondents agreed that the National Treasury (RSA, 2017a) encouraged collective procurement of goods and services between the district and local municipality within the area of the same district. Section 6.5.3.7 of Chapter six

indicated the value of invoices written off due to non-payment of invoices by municipalities. Almost a third (34%) of suppliers wrote off outstanding amounts between R10 001 up to R500 000 and 17% of suppliers wrote off outstanding amounts of more than R500 000. Consequently, the non-payment of services rendered by 51% of the suppliers to a particular municipality led to a loss of income, which is unacceptable and affects the socio-economic conditions of suppliers doing business with municipalities. This clearly shows that some municipalities have cash constraints and as a result could procure some goods and services for the municipality or municipal entity under a contract secured by another organ of state, with a view to receiving negotiated discounts or benefits.

With regards to Questions 8.2, 8.3 and 8.5, Table 6.27 and Figure 6.36 further show that 70% of the respondents agreed the National Treasury (RSA, 2011c) and the National Treasury (RSA, 2017a) assisted in stimulating SMME suppliers in the past three years; and 60% of the respondents agreed that *BBBEEA* (RSA, 2003) radically transformed the socio-economic conditions of SMME suppliers who did business with a municipality in the past three years. A total of 85% agreed that the municipal management had guidelines in place to manage the SMME suppliers (National Treasury, RSA, 2011c).

In Chapter three, Section 3.3.4.1 it was mentioned that the older National Treasury (RSA, 2011c) used the 80/20 preference point system to calculate the points for price in respect of bids or procurement with a rand value below R1 million, and 90/10 for procurement above R1 million. The 80 and 90 points go towards price, whereas 20 and ten go towards advancing the objectives of *BBBEE*. In this regard, municipal management must comply with national treasury legislation. With regard to Question 8.2, 70% of respondents agreed that the preference points were awarded to SMMEs, which should stimulate their business. A total of 60% of respondents agreed that the *BBBEEA* (RSA, 2003) radically transformed the socio-economic conditions of SMME suppliers who did business with municipalities in the past three years, and 85% of respondents agreed that the municipal management had guidelines in place to manage the SMMEs suppliers. This is contrary to the responses to Section 6.5.3.5 regarding the question asked to suppliers doing business with municipalities about the number of hours they spent in a week pursuing late payments. Of the respondents 25% spent three to four hours; 15% spent five to six hours; and 25% of the respondents spent more than six hours a week pursuing late payments at their district

municipality. Consequently, 67% of the suppliers spend between more than three hours a week pursuing their late payments by municipalities. One could argue that the older National Treasury (RSA, 2011c) did not assist in stimulating the SMME suppliers awarded BBBEE points. The *BBBEA* (RSA, 2003) did not radically transform socio-economic conditions of SMMEs suppliers and the municipal management guidelines in place to manage the SMMEs suppliers did not assist, as SMME suppliers were not paid as indicated in their contracts with municipalities. As a result, SMME suppliers spent hours each week pursuing their payment from municipalities. This could be an obstacle for municipalities to improve the socio-economic conditions of suppliers doing business with municipalities. Question 8.4 enquired if all suppliers were paid within 30 days of receipt of valid invoices, in compliance with Section 65(2)(e) of the *MFMA* (RSA, 2003) in the past three years. In total, 60% of respondents disagreed that all suppliers were paid within 30 days of receipt of valid invoices. One could argue that most of the municipalities in the Free State did not comply with SCM regulations. The above situation could be another obstacle for municipalities in improving the socio-economic conditions of suppliers doing business with municipalities.

6.10.2 Discussion and interpretation of inferential statistical findings on the effect of municipal managers' experience on municipal SCM legislation and policy

The effect of experience of municipal officials in SCM on SCM legislation and policy within local government was investigated. Previously from Table 6.8 and Figure 6.26 above 70% of municipal officials ($n = 14$) within local government have experience concerning SCM. The frequency distribution of SCM practices and tools from Table 6.27 was summarised by calculating a mean score for each of the five items (*strongly agree* = 1, *agree* = 2, *don't know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the section. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.31 below the mean and standard deviation (SD) scores for each item in the SCM legislation and policy section is summarised for municipal officials with and without experience concerning SCM.

Table 6.31: Effect of experience of municipal officials on SCM legislation and policy (n = 20).

SCM Legislation and Policy Questions	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean \pm SD	Mean \pm SD	
Q 8.1 The Municipal SCM Policy encourages collective procurement of goods and services between District and Local Municipality within the area of the same district.	2.79 \pm 1.31	2.17 \pm 1.17	0.7956
Q 8.2 Preferential Procurement Regulation 2011 assisted in stimulating SMME suppliers in the past 3 years.	2.57 \pm 1.02	2.00 \pm 0.63	0.6742
Q 8.3 BBBEE Act, 2003 radically transformed socio-economic conditions of SMME suppliers who did business with your municipality in the past 3 years.	2.79 \pm 0.97	2.17 \pm 0.75	0.9670
Q 8.4 All suppliers were paid within 30 days of receipt of valid invoices in compliance with Sec 65(2)(e) of the MFMA, 2003 in the past 3 years.	3.29 \pm 1.44	3.83 \pm 1.60	0.9040
Q 8.5 The municipality management has guidelines in place to manage the SMME suppliers.	2.21 \pm 1.05	2.17 \pm 1.47	0.6790

Overall those municipal officials with SCM experience had a higher level of disagreement for items one to three and item five in the section, and municipal officials without SCM experience had a higher level of disagreement for Item four in the section. These higher levels of disagreement were not significant (all p-values > 0.05) and consequently of municipal officials' experience in

SCM had no effect on the five items for SCM legislation and policy. In Chapter two of this study it was emphasised that in terms of Section 65(2)(e) of the *MFMA* (RSA, 2000), one of the statutory commitments of a municipality is, to ensure that all monies owed by the municipality are paid within 30 days of receipt of the invoice. One could argue that none and late payment to creditors and suppliers is the result of poor knowledge and implementation of legislation and policies.

6.11 SECTION F: SERVICE DELIVERY

This section presents the empirical results of the service delivery within the district municipalities of the Free State. Six items relating to service delivery were rated by the municipal officials on a five-point Likert scale, where 1 = *strongly agree*, 2 = *agree*, 3 = *don't know*, 4 = *disagree* and 5 = *strongly disagree*. Table 6.32 and Figure 6.37 below indicate the responses of 20 municipal officials to the six items related to service delivery practices.

Table 6.32: Service delivery at the municipalities (n = 20)

Statements	Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
	F	%	F	%	f	%	f	%	F	%
9.1 Awarding contracts to inexperienced Small, Medium and Micro-Enterprise suppliers led to achievement of service delivery targets.			4	20	1	5	10	50	5	25
9.2 Late and non-payment of Small, Medium and Micro-Enterprise suppliers delayed service delivery.	7	35	13	65						
9.3 The recent Office of the Chief Procurement Officer's procurement reforms are adequate to accelerate service delivery.	3	15	14	70	2	10	1	5		
9.4 Better-managed cooperatives, townships and rural SMMEs enhance service delivery.	5	25	13	65	1	5	1	5		
9.5 Preferential Procurement Regulation 2017 will give Small, Medium and Micro-Enterprise suppliers' opportunity to grow local economy.	10	50	9	45			1	5		
9.6 Doubling current equitable share allocation from the National Treasury alone will address municipal service-delivery backlog.	7	35	4	20			9	45		

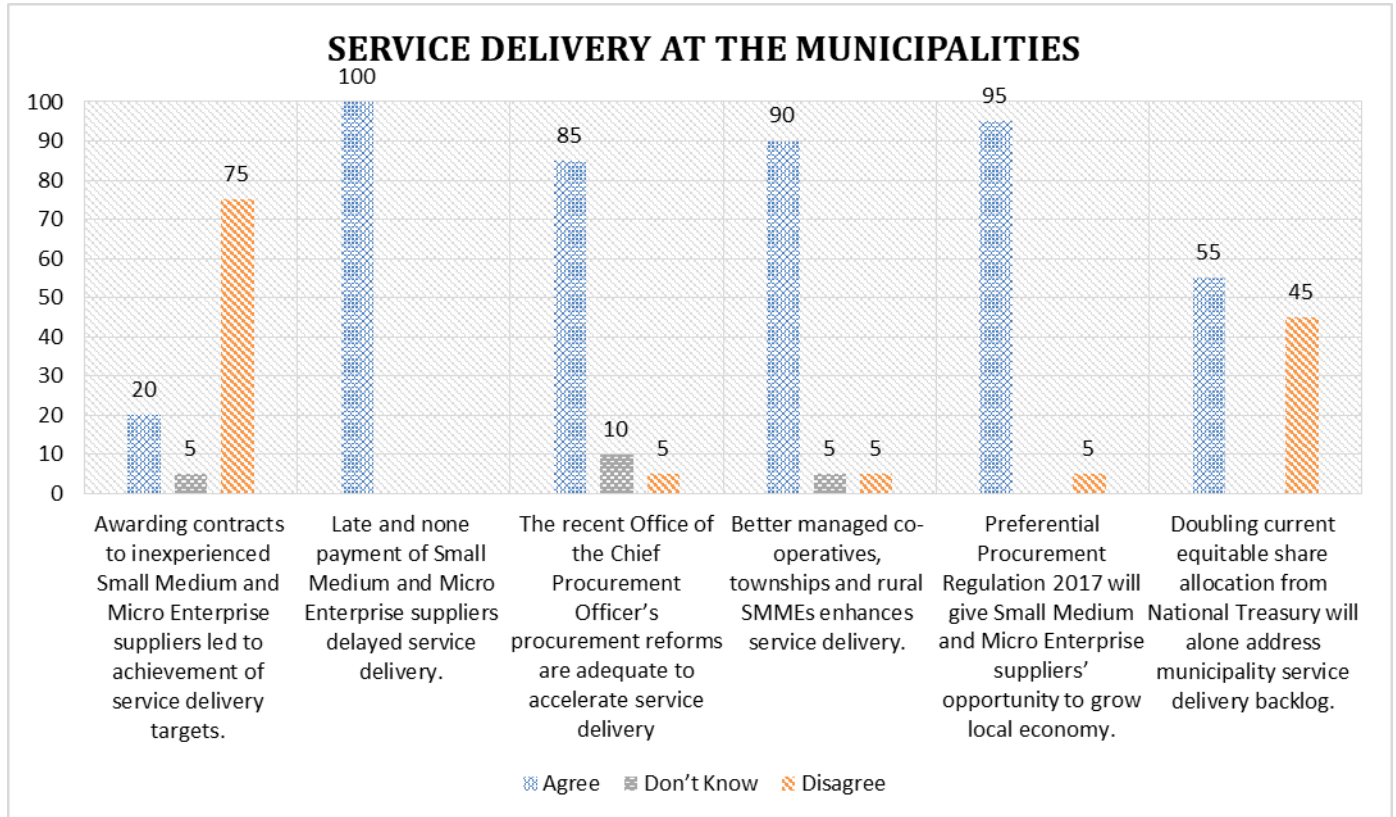


Figure 6.37: Service delivery at the municipalities (n = 20)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* was combined and was referred to as *disagree*, and a response of *agree* or *strongly agree* was combined and was referred to as *agree*. As shown in Table 6.32, only 20% of the municipal officials agreed that awarding contracts to inexperienced SMME suppliers led to the achievement of service delivery targets, which is a concern. The above view is in contradiction with Section 3.2 of the study. It was mentioned in Section 3.2 that suppliers who have good performance records, skills, quality, experience, previous performance and value for money should be taken into account to test the bidder's ability to deliver on the contract. In Section 3.11 of this study, it was mentioned that before a municipality entering into any contract with a supplier it is an imperative for the municipality to conduct a thorough investigation of the suppliers' capabilities and core competencies to meet the cost, quality and deliver requirements of the contract. Therefore, one could argue that inexperienced SMME led to the non-achievement of service delivery targets.

The findings of the next question show that all the municipal officials (100%) agreed that late and non-payment of SMME suppliers delayed service delivery. A majority of 85% of municipal officials agreed that the recent OCPO procurement reforms were adequate to accelerate service delivery, while 90% of municipal officials agreed that better managed cooperatives, townships and rural SMMEs enhanced service delivery were adequate. Furthermore, 90% of the municipal officials agreed that the National Treasury (RSA, 2017a) would give SMMEs suppliers the opportunity to grow local economy (National Treasury, RSA, 2017a). Only 55% of municipal officials agreed that doubling current equitable share allocation from the National Treasury alone would address municipality-service delivery backlog.

The majority of municipal officials (85%) viewed the OCPO reforms as adequate to accelerate service delivery. Almost all (90%) of the municipal officials agreed that the businesses of suppliers doing business with municipalities were still in an infant stage. These businesses needed to be developed through introduction to SCM practices such as lean thinking and Six Sigma quality with their corresponding tools, with a view to supporting SMME suppliers' top management and employees' involvement, which would bring about continuous improvement on cost, quality levels and responsiveness throughout the SCM, thereby enhancing service delivery. The majority of municipal officials (90%) were mindful of the contribution of the National Treasury (RSA, 2017a). The National Treasury (RSA, 2017a) further provided opportunities to SMME suppliers to grow the local economy through being prequalified for certain tenders, and for subcontracting 30% of all contracts above R30 million awarded by all organs of state at national, provincial and municipal government to SMME suppliers.

Only 55% of municipal officials were of the view that the current equitable share allocation to district municipalities was more than enough to meet all service delivery backlogs. A reliability analysis on service delivery practices comprising six items resulted in a Cronbach's alpha (α) of 0.57. The scale had a poor internal consistency ($\alpha < 0.60$).

6.11.1 Summary of interpretations of responses to Questions 9.1 to 9.5

With regard to Question 9.1 Table 6.32 depicted that awarding contracts to inexperienced Small, Medium and Micro-Enterprise suppliers led to the achievement of service delivery targets. Figure 6.37 show that in total, 20% of respondents agreed that this was the position. This is cause for

alarm. The respondents' view could be due to the fact that some municipal managements were not aware of the report of the OCPO of the National Treasury (RSA, 2015c:17), where it is stated that the early stages of SCM processes are the most critical phases where it should reflect suppliers who have good performance records, skills, quality, experience and previous performance. In addition, one could argue, as provided in Section 3.9 of this study, that reliability and the supplier financial stability should be taken into account in order to avoid interruptions to service delivery. Question 9.2 relates to late and non-payment of SMME suppliers' delayed service delivery. All 20 respondents (100%) agreed that this was indeed the position.

This above finding is supported by the literature in Section 3.14 of this study that that municipalities in the Free State have defaulted on timeous payment to their suppliers. As a result, Eskom plans to cut power supplies to residents of the Free State. This failure to pay electricity bills is an indication of the financial predicament of the municipalities in the Free State, which do not allow them to complete their projects. In total, 19 respondents, as indicated in Section 6.5.4 of this chapter about the effects of late payment, agreed that they were unable to complete projects due to bankruptcy, which resulted in delayed service delivery. Question 9.3 enquires if the recent OCPO procurement reforms are adequate to accelerate service delivery. A majority of 85% of municipal officials agreed that the recent OCPO procurement reforms were adequate to accelerate service delivery. The literature provided in Chapter two, Section 2.2 of this study, corresponds with the findings by stating that the OCPO is responsible for addressing the following challenges:

- Inefficient public-sector SCM;
- Suppliers charging excessive prices for goods and services contracted for;
- Deliveries of poor quality and unreliable;
- Corruption and waste;
- Lack of skills and knowledge of SCM, and lack of accountability, which are the causes for delayed service delivery.

Question 9.5 on the National Treasury (RSA, 2017a) asks if it gives SMME suppliers the opportunity to grow the local economy. A full 90% of the respondents agreed that the National Treasury (RSA, 2017a) will give SMME suppliers the opportunity to grow a local economy. This

is supported by Section 3.3.4.1 of Chapter three which provides that the National Treasury (RSA, 2017a) increased the threshold values from R1 million to R50 million with a view to giving smaller companies a greater chance to compete in the economy in a meaningful way, to in turn accelerate service delivery (National Treasury, RSA, 2017a). With regard to Question 9.6, doubling the current equitable share allocation from the National Treasury, this will alone address municipality service delivery backlog. Only 55% of respondents agreed that doubling current equitable share allocation from the National Treasury would address municipality service-delivery backlog. This is supported by Section 4.2.5 of Chapter four, which states that in terms of Section 214(2) of the *Constitution* (RSA, 1996), the annual *DoRA* is enacted each year to determine the equitable share to be allocated to municipalities. The *DoRA* provides an indication to a municipality of the conditional and unconditional grants that are allocated to a municipality with the aim to supplement their efforts to fulfil their mandate of service delivery to the communities within a municipal area.

6.11.2 Discussion and interpretation of inferential statistical findings on the effect of municipal manager's experience on service delivery within local government

The effect of experience of municipal officials in SCM on service delivery within local government is investigated. From Table 6.8 and Figure 6.26 above, 70% of municipal officials ($n = 14$) within local government have SCM experience. The frequency distribution of service delivery from Table 6.32 is summarised by calculating a mean score for each of the six items (*strongly agree* = 1, *agree* = 2, *don't know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the section. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.33 below the mean and standard deviation (SD) scores for each item in the service delivery section is summarised for municipal officials with and without experience concerning SCM.

Table 6.33: Effect of experience of municipal officials on service delivery (n = 20).

Service Delivery Questions	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean ± SD	Mean ± SD	
Q 9.1 Awarding contracts to inexperienced SMME suppliers led to achievement of service delivery targets.	3.64 ± 1.01	4.17 ± 1.17	0.3225
Q 9.2 Late and non-payment of SMME suppliers delayed service delivery.	1.71 ± 0.47	1.50 ± 0.55	0.3839
Q 9.3 The recent Office of the Chief Procurement Officer's procurement reforms are adequate to accelerate service delivery	1.93 ± 0.73	2.33 ± 0.52	0.2366
Q 9.4 Better managed co-operatives, townships and rural SMMEs enhance service delivery.	1.93 ± 0.83	1.83 ± 0.41	0.7940
Q 9.5 Preferential Procurement Regulation 2017 will give SMME suppliers opportunity to grow local economy.	1.71 ± 0.83	1.33 ± 0.52	0.3132
Q 9.6 Doubling current equitable share allocation from the National Treasury will alone address municipality service delivery backlog.	2.43 ± 1.45	2.83 ± 1.33	0.5662

Overall those municipal officials with SCM experience had a higher level of disagreement for items two, four and five in the section, and municipal officials without SCM experience had a higher level of disagreement for items one, three and six in the section. These higher levels of

disagreement were not significant (all p-values > 0.05) and consequently the experience of municipal officials in SCM had no effect on the five items for service delivery.

6.12 SECTION G: GENERAL QUESTIONS ABOUT THE GENERAL PRACTICES REGARDING THE MANAGEMENT OF THE MUNICIPALITY

This section presents the empirical results of other general practices within the district municipalities of the Free State. Six items relating to general practices were rated by the municipal officials on a five-point Likert scale, where 1 = *strongly agree*, 2 = *agree*, 3 = *don't know*, 4 = *disagree* and 5 = *strongly disagree*. Table 6.34 and Figure 6.38 below indicate the responses of 20 municipal officials to the six general questions or statements related to the management of municipalities.

Table 6.34: Other general practices related to the management of municipalities (n = 20)

Statements	Strongly Agree		Agree		Don't Know		Disagree		Strongly Disagree	
	F	%	f	%	F	%	f	%	f	%
10.1 The cooperatives, township and rural SMME suppliers in my area are able to self-register on CSD.	1	5	9	45	2	10	8	40		
10.2 Listing tender defaulters in the National Treasury's register of Tender Defaulters prevent and combat corrupt practices.	5	25	14	70			1	5		
10.3 The BBBEE Commission has effective measures in place to investigate fronting practices adequately.	1	5	8	40	4	20	6	30	1	5
10.4 The South African Revenue Services' new Tax Compliance Pin is adequate to ensure that contracts are awarded to tax compliant suppliers.	5	25	13	65	1	5			1	5
10.5 The Auditor-General's findings contribute to the changed livelihoods of Small Medium and Micro-Enterprise suppliers.	3	15	7	35	3	15	6	30	1	5

10.6 Municipal Public Accounts Committee investigates tenders awarded to people in the service of State successfully.	3	15	6	30	7	35	2	10	2	20
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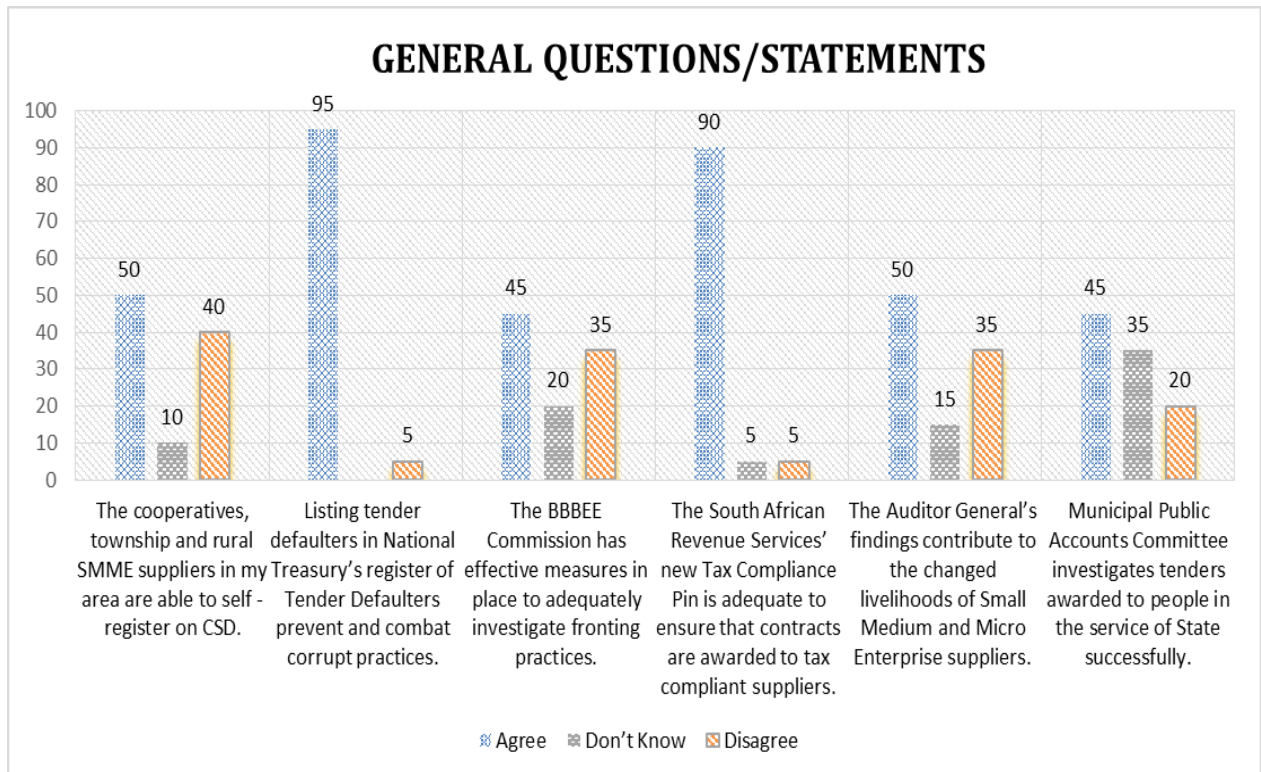


Figure 6.38: Other general practices related to the management of municipalities (n = 20)

In order to discuss these findings in a simple and meaningful way, a response of *strongly disagree* or *disagree* was combined and was only referred to as *disagree* and a response of *agree* or *strongly agree* was combined and was only referred to as *agree*.

6.12.1 Summary of interpretations of responses to Questions 10.1 to 10.6

The responses to Question 10.1 as indicated in Table 6.34 above show that half (50%) of the municipal officials agree that the rural SMME suppliers in their area are able to self-register on CSD. Almost all (95%) of the municipal officials agree that tender defaulters must be listed in the National Treasury's register of tender defaulters to combat and prevent corrupt practices (Question 10.2). Only 5% of the municipal officials disagreed. It could be that they are not aware of the requirement that defaulters should be registered in the National Treasury's Tender Defaulters register. The responses from Question 10.3 shows that a total of 45% of the municipal officials agree that the BBBEE Commission has effective measures in place to investigate fronting practices, 40% are undecided while 35% disagree with this statement. One could argue the latter could be because they are unaware of the fact that the BBBEE Commission has effective measures in place to investigate fronting practices.

The responses to Question 10.4 as shown in Table 6.34, reveals that the majority of the municipal officials (90%) agree that the South African Revenue Services' new Tax Compliance Pin is adequate to ensure that contracts are awarded to tax compliant suppliers. The municipal officials who are undecided and those disagreeing could be that they are not aware that Tax Compliance System Pin is adequate to confirm the tax compliance status of suppliers before award, as discussed in Section 2.7.2.1. of Chapter two of this study.

Responses to Question 10.5 indicate that half of the municipal officials (50%) agree that the Auditor-General's findings contribute to the changed livelihoods of SMMEs suppliers, while 15% are undecided and 35% disagree with this statement. The latter could be because the Auditor-General could only make recommendations in audit reports and could not enforce any of their recommendations before the *Public Audit Amended (Act 5 of 2018)* was promulgated on 20 November 2018. Chapter two, Section 2.5.1 of this study states that in terms of Section 188(1) of the *Constitution (RSA, 1996)* the Auditor-General must audit and report on the accounts, financial statements and financial management of the three spheres of government and other institutions or account entities.

A majority of 45% of the municipal officials agree that the MPAC investigates tenders awarded to people in the service of the South African government successfully (Question 10.6), while 35% are undecided and 30% disagree with this statement. In Section 2.5.4, Chapter two of this study it was mentioned that the National Treasury (RSA, 2005b) and National Treasury (RSA, 2017a) provides that awards need not be made to a person who is in the service of the state or government. While Section 3.3.4.1, Chapter three of this study mentioned that bid documentation MBD 4 – Declaration of Interest must be completed by all bidders for all written price quotations, bids and proposals in order for the municipality to verify the names and identity numbers of directors/trustees/shareholders of companies, enterprises, closed corporations and trusts against the relevant municipal staff structure. In Section 3.3.7 of this study, the Auditor-General cautions that there were municipalities that awarded contracts to bidders who did not submit declarations on whether they were employed by the state or connected to any person employed by the state and the MPAC, in some municipalities that are not functional (AGSA, RSA, 2017:29-31). It can be argued that 45% of municipal officials were not truthful when agreeing that the MPAC investigates tenders awarded to people in the service of the government successfully, while 35% of municipal officials who are undecided

are afraid of telling the truth, and 30% disagree that MPAC investigated tenders awarded to people in the service of government successfully and truthfully.

6.12.2 Discussion and interpretation of inferential statistical findings on the effect of municipal manager’s experience on general practices within local government

The effect of municipal officials’ experience in SCM on general practices within local government is investigated. Previously from Table 6.8 and Figure 6.26 above 70% of municipal officials (n = 14) within local government have experience concerning SCM. The frequency distribution of general practices from Table 6.34 was summarised by calculating a mean score for each of the six items (*strongly agree* = 1, *agree* = 2, *don’t know* = 3, *disagree* = 4 and *strongly disagree* = 5) in the section. Consequently, a higher level of disagreement has a higher numerical value. In Table 6.35 below the mean and standard deviation (SD) scores for each item in the service delivery section is summarised for municipal officials with and without experience concerning SCM.

Table 6.35: Effect of experience of municipal officials on general practices in SCM (n = 20).

Questions on general practices	SCM experience (n = 14)	SCM inexperience (n = 6)	p-value (Difference in mean scores)
	Mean ± SD	Mean ± SD	
Q 10.1 The cooperatives, township and rural SMME suppliers in my area are able to self - register on CSD.	2.71 ± 1.07	3.17 ± 0.98	0.3871
Q 10.2 Listing tender defaulters in the National Treasury’s register of Tender Defaulters prevent and combat corrupt practices.	1.93 ± 0.73	1.67 ± 0.52	0.4385
Q 10.3 The BBBEE Commission has effective measures in place to adequately investigate fronting practices.	2.79 ± 1.12	3.17 ± 0.98	0.4810

Q 10.4 The South African Revenue Services' new Tax Compliance Pin is adequate to ensure that contracts are awarded to tax compliant suppliers.	1.64 ± 0.50	2.67 ± 1.21	0.0134
Q 10.5 The Auditor General's findings contribute to the changed livelihoods of SMMEs suppliers.	2.79 ± 1.25	2.67 ± 1.21	0.8463
Q 10.6 Municipal Public Accounts Committee investigates tenders awarded to people in the service of State successfully.	2.86 ± 1.23	2.33 ± 1.03	0.3748

For item four in the section the mean score for officials with experience in SCM (1.64) was significantly different from the mean score for officials without experience in SCM (2.67) ($p = 0.0134$). Consequently, experience of municipal officials in SCM had an effect on the fourth item for general practices. For the remaining five items in the section there were no significant differences between the levels of disagreement of municipal officials with and without SCM experience (all p -values > 0.05), and consequently experience of current municipal officials in SCM had no effect on the remaining five items for general practices. In Section 2.7.3.3 of Chapter two of this study it was emphasised that the municipality must do business with suppliers registered on CSD, and whose tax status is in compliance with SARS requirements. One could argue that inexperienced municipal officials could awarded contracts to suppliers who do not have a Tax Compliance Pin. These suppliers could be listed as tender defaulters, hence SARS is unable to provide them with a Tax Compliance Pin.

6.13 COMPARISON (METHODOLOGICAL TRIANGULATION) OF QUALITATIVE AND QUANTATIVE DATA

It was discussed in Section 6.25 of this study that triangulation is one of the methods to increase the trustworthiness of a research instrument. According to Bless *et al.* (2014:238-239) there are several types of triangulation, namely theoretical triangulation, methodological triangulation, data triangulation, and investigator triangulation. In this study methodological triangulation was used to increase the trustworthiness of the instruments, the data and findings. Bless *et al.* (2014:2410) further argues that one of the particular strengths of mixed-method

research as applied in this study is that methodological triangulation is built into every mixed method study. Methodological triangulation requires that different methods of data collection are used, and the findings are compared with each other to increase the trustworthiness of the data and findings. For the purpose of this study methodological triangulation was used to compare the findings of similar items/questions of the semi-structured and structured questionnaire. Table 6.36 below provides a summary of the comparison (methodological triangulation) of qualitative data and quantitative data.

Table 6.36: Summary of the comparison (methodological triangulation) of qualitative and quantitative data

Questions	Semi-Structured questionnaire (Qualitative) distributed to supplier respondents	Structured questionnaire (Quantitative) distributed to municipal officials	Outcomes from the supplier's questionnaire (Qualitative)	Outcomes from the municipal official's questionnaire (Quantitative)	Findings
Questions 3.2 (Semi-Structured questionnaire) and Question 4.6 (Structured questionnaire)	Within the last five years has the business experienced late payment of invoices	The municipality had instances where the period for late payment to creditors exceeded 120 days in the past three years	A total of 48% of the supplier respondents agreed that they experienced late payment of invoices in the last five years.	A total of 65% of the municipal official respondents agreed that they had instances where the period for late payment to creditors exceeded 120 days in the past three years.	There are similarities between the manner in which supplier respondents and the municipal official respondents answered these questions. The supplier respondents and municipal official respondents agreed that municipalities paid suppliers late and the period exceeded 120 days in some instances,
Questions 3.2 (Semi-Structured questionnaire) and Question 6.1 (Structured questionnaire)	Within the last five years has the business experienced late payment of invoices	The municipality management incurred irregular expenditure due to interest and penalties on late payment.	A total of 48% of the supplier respondents agreed that they experienced late payment of invoices in the last five years.	A total of 75% of the municipal officials agreed that the municipal management incurred irregular expenditure due to interest and penalties on late payment.	The manner in which supplier respondents and the municipal official respondents answered these questions has similarities. The supplier respondents and municipal official respondents agreed that suppliers were paid late and as a result municipalities incurred interest and penalties.
Questions 3.2(Semi-Structured questionnaire) and 8.4 (Structured questionnaire)	Within the last five years has the business experienced late payment of invoices	All suppliers were paid within 30 days of receipt of valid invoices in compliance with Sec 65 (2)(e) of the MFMA, 2003 in the past three years.	A total of 48% of the supplier respondents agreed that they experienced late payment of invoices in the last five years.	A total of 30% of the municipal official respondents agreed, whereas 10% were neutral and that 60% disagrees that all suppliers were paid within 30 days of receipt of valid invoices, in compliance with Section 65(2)(e) of the MFMA (RSA, 2003) in the past three years.	The responses are similar when looking at the question of the municipal official respondent's perspective. A total of 60% of the municipal official respondents disagree that all suppliers were paid within 30 days of receipt of valid invoices, in compliance with Section 65(2)(e) of the MFMA (RSA, 2003) in the past three years. This means that 60% of municipal officials agreed that some suppliers experienced late payment. This response indicates that there were similarities between the manner in

					which supplier respondents and the municipal official respondents answered these questions.
Questions 3.2 (Semi-Structured questionnaire) and Question 9.2 (Structured questionnaire)	Within the last five years has the business experienced late payment of invoices	Late and non-payment of SMMEs suppliers delayed service delivery	48% of the respondents agreed that they experienced late payment of invoices in the last five years.	All (100%) of the municipal official respondents agreed that late and non-payment of SMMEs suppliers delayed service delivery	There are similarities between the manner in which suppliers and the municipal officials answered these questions, meaning there is an agreement that suppliers were paid late and as a result it delayed service delivery.

It was emphasised in the limitations of this study in Chapter one (Section 1.17) and again in Section 7.10 in the next chapter that the municipal officials' unavailability, and their lack of commitment due to fear that they may be caught for certain non-compliance issues, could also mean that some of the municipal officials have not told the truth. The latter could have an effect on their perceptions and the manner in which the municipal officials answer the questions in the structured questionnaire. The researcher pointed out in the discussion about the findings of the structured questionnaire that there were discrepancies between some of the findings of Section B, Section E and Section G of the findings, in comparison with the findings of the semi-structured questionnaire and the findings from the comparative analysis chapter (Chapter five), and the findings of the Auditor-General (AGSA, RSA, 2017). However, Table 6.36 above shows when comparing the findings (methodological triangulation) of the seven similar items/questions from different data collection methods (qualitative and quantitative (mixed-method)), the findings were similar. Therefore, one could argue that the methodological triangulation as depicted in Table 6.36 shows when comparing the findings from different data collection methods (qualitative and quantitative (mixed- method) as used in this study, the findings are similar. Thus, one could argue that the reliability of the instruments, data and findings were acceptable.

6.14 SUMMARY

This chapter outlined the research methodology followed in the study and discussed the analysis and interpretation of the data, giving empirically derived observations in each case. The demographic profile of the respondents was firstly examined.

From the findings of the semi-structured questionnaire completed by suppliers of four district municipalities and one local municipality affiliated to each district municipality in the Free State Province, it is clear that out of the total number of suppliers, 96% confirmed that they were without disability, whereas 4% (one supplier of the total number of 25 respondents) are disabled. It was mentioned in Section 2.5.5 and 2.5.7 of this study that the *PPPFA* (RSA, 2000) and *BBBEEA* (RSA, 2003) requires from government to provide economic opportunities to previously disadvantaged groups including disabled SMME people doing business with the government. Thus, it was argued in this chapter that the smaller number of disabled suppliers could mean that municipalities in the Free State Province do not implement *PPPFA* (RSA, 2000) effectively by entering into contracts with disabled people.

It was also emphasised in the discussion above that the majority (56%) of the respondents doing business with municipalities (less than five years) are still at an infant stage, and need to be developed to become established companies which are able to participate in the mainstream economy. Furthermore, the findings show that the majority (76%) of the total number of suppliers do not employ more than 20 employees, while only 24% of the suppliers employ more than 20 employees. One could argue that the suppliers' businesses are not growing due to the late or non-payment of the suppliers' invoices by municipalities. The results further show that all respondents doing business with the district and one affiliate of district municipalities in the Free State are SMMEs. A total of 84% of the suppliers can be categorised as EME, with only 16% that can be categorised as QSE SMMEs.

Another concern is that the results show that the majority (64%) of the suppliers dealing with the municipalities acquired loans in the past three years. The results further show that 48% of suppliers experienced late and non-payment respectively in the last five years. Half (50%) of the suppliers' invoices were paid beyond the stipulated time and suppliers waited 31–60 days before receiving their payment. In total, 25% of the suppliers spent more than six hours a week pursuing late payments. Furthermore, the results show that the majority (50%) are currently owed between R100 000 and R500 000, while 34% of suppliers have written off outstanding amounts between R10 001 up to R500 000. It was argued that the majority of the respondents were not paid within 30 days of the receipt of the valid invoices, which could be an indication as to why most SMME businesses are unable to stay alive within their first five years of existence. SMME suppliers are unable to sustain their businesses beyond five years due to, amongst others, late payment of invoices and lack of managerial competencies of the owners. It further implies ineffective implementation of Section 96 and 97 of the *MSA* (RSA, 2000), which provides for the debt collection responsibility of municipalities, as well as their ability to adopt, maintain and implement a credit control and debt collection policy.

Another concern is that the majority of the suppliers agree that late payment damages business and personal reputation. The results further show that the majority of the suppliers' (80%) agree that late payment damages business and personal reputation. It was argued in the discussion above that the late or non-payment of services rendered by suppliers to a particular municipality has a negative impact in relation to the socio-economic conditions of suppliers doing business with the selected district and local municipalities. It was emphasised that the above results are not in relation with the requirements of the *PPPFA* (RSA, 2000) and the *BBBEEA* (RSA,

2003), as provided in Chapter two of this study (Section 2.5.5 and Section 2.5.7), which requires that government and, for the purpose of this study, municipalities in the Free State Province have to provide opportunities to previously disadvantaged groups, in particular small and medium suppliers to ensure that there is a proper system in place to manage suppliers, to contribute to the effective public procurement and SCM practices in municipalities.

From the findings results from the self-administered structured questionnaire completed by municipal officials of four district municipalities and one local municipality affiliated to each district municipality in the Free State Province, the results show that all (100%) of municipal officials confirmed that they were without disability. It was argued that the nil representatives of the municipal officials without disability might be indicative of the intolerances that municipal management has towards people with disability; hence, the regulations to employ persons with disabilities in the municipal management of Free State municipalities are not met. The results further show that the majority (64.3%) of the municipal officials have between four to ten years' work experience in SCM at a municipality. Furthermore, all municipal officials (100%) indicated that the late or non-payment of SMMEs affects the local economy negatively.

Another concern is that the majority (65%) of the municipal officials agree that they had instances where the period for late payment to creditors exceeded 120 days in the past three years. One could argue that it implies the ineffective implementation of Section 96 and 97 of the *MSA* (RSA, 2000), which provide for the debt collection responsibility of municipalities, as well as their ability to adopt, maintain and implement a credit control and debt collection policy. Another concern is that only 55% of the municipal officials agreed that the reduced costs created an adequate cash reserve for prompt payment of SMMEs suppliers, whereas 25% responded that they did not know. It was argued that that only 25% of the municipal officials were not purposeful in terms of how to use cash reserves or monies saved from reducing costs, which is a concern for effective logistic management as discussed in Chapter three of this study. Another concern is the contradictions from the results of the acquisition management item scores for the municipal officials, which were fairly high (>70% agreement), indicating that municipalities assisted to accelerate the suppliers' socio-economic conditions. It was emphasised that the results were not in line with the findings of the Report of the Creditors Analysis of the Free State Municipalities extracted from Local Government Database of 2017 (RSA, 2017a) as discussed in Section 5.3, Chapter five in this study. The latter report indicates

that the Free State Province is the second highest after Gauteng Province in terms of money owed to suppliers at R22, 085, 656, 000 in 2015/2016 and R31, 485, 111, 000 in 2016/2017.

A further matter of concern is that the majority of municipal officials (85%) agreed that they had measures in place to process invoices for payment within a particular timeframe. Another concern is that the majority (65%) of the municipal officials agreed that they had instances where the period for late payment to creditors had exceeded 120 days in the past three years. It was emphasised in Section 3.4, Chapter three of this study that in terms of Section 65(2)(e) of the *MFMA* (RSA, 2003), municipalities must pay all outstanding monies owed to SMMEs suppliers within 30 days of receiving a valid invoice. All (100%) municipal officials accept that assistance is needed in terms of a framework for the management of suppliers as part of municipal procurement management practices for district municipalities of the Free State Province to promote effective procurement practices, which will accelerate service delivery. Lastly, Table 6.36 shows when comparing the findings (methodological triangulation) as depicted in from different data collection methods (qualitative and quantitative (mixed-method) as used in this study, the findings are similar. Thus, one could argue that the reliability of the instruments, data and findings were acceptable.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

This chapter was the final chapter of the study. It succeeds the analyses and interpretations that were concluded in Chapter six. The findings were used and linked with the literature reviewed to make some recommendations as part of the objectives and research questions of the study. The proposed framework for the management of suppliers as part of public procurement and SCM practices in district municipalities of the Free State province was discussed. Followed by a discussion about the recommendations that were made regarding the management of suppliers as part of public procurement management and SCM practices. It is important to acknowledge the limitations of the study because this enables the reader to become conscious of the shortcomings of the study, which adds to the credibility of the findings. Recommendations about further research related to this study were also identified and proposed.

7.2 THE RESEARCH PROCESS

As mentioned in Chapter one of this study, ineffective municipal SCM practices have a negative effect on suppliers. Bankrupt suppliers will be unable to create jobs, alleviate their own poverty and the poverty of their communities, and redistribute opportunities and wealth. Therefore, the aim of the study was to promote effective procurement and SCM practices by developing a framework for the management of suppliers as part of public procurement and SCM practices in district municipalities of the Free State Province. In achieving the aim of this study, a five-step research process was undertaken. Firstly, the research problem was formulated. Secondly, a theoretical framework was developed and thirdly, an approach (research methodology, design) was developed to collect and to analyse data. The study followed a mixed-method research approach, and a descriptive case study research design to achieve the research objectives and to answer the research questions of the study. Fourthly, the results and findings were discussed and lastly, conclusions were drawn, and recommendations were made.

7.2.1 Step One

The first step was to provide the background and purpose of the study. This was followed by a clearly delineated research problem, the aims, objectives and a detailed description of the

research question. Firstly, various literature such as scientific journals, dissertations, related books, policies, acts and government reports were examined to gain a thorough understanding of procurement and SCM principles, concepts and models. Previous studies were also examined, analysed and discussed, and after a thorough understanding of procurement, SCM, municipal financial management, debt management and the payment or non-payment of suppliers, a conceptual and theoretical framework was developed to answer the research questions in order to achieve the objectives. Relevant theoretical frameworks of SCM were acknowledged in this study, such as the four major organisational theories for SCM and managing of supply chains. The third step was to develop an approach to conduct the empirical study that focused on the methodology, design, research population, sampling and instrumentation.

7.2.2 Step Two

After step one in the research process was finalised, a thorough literature discussion was provided. As part of the literature study, a theoretical review of municipal procurement management practices that explained the shift from procurement to SCM were provided in Chapter two of this study. The statutory and legislative frameworks and policy directives on procurement and SCM were provided. A comparative analysis of international and national models or frameworks and guidelines of procurement and SCM were detailed, that could assist the researcher with the development of a framework for the management of suppliers as part of procurement and SCM practices within municipalities. As part of the literature study, Chapter three of this study provided a detailed discussion about SCM in local government, with specific reference to suppliers and the late or non-payment of suppliers. As part of the literature study, Chapter four provided a detailed discussion about municipal financial management, expenditure and debt management, from which the payment of suppliers cannot be excluded. A detailed legislative framework of municipal financial management was provided that focuses on payment of suppliers.

7.2.3 Step Three

In this study, a mixed-method approach, which consisted of mainly qualitative methods supported by quantitative research, was followed. A descriptive case study research design was used to achieve the research objectives and to answer the research questions. As part of the qualitative data collection and data analysis of this study, Chapter five provided a

comparative analysis of municipal procurement practices and the payment of the creditor groups or suppliers of the district municipalities of the Free State. It also made a comparative analysis of the municipal procurement management practices in the Free State, compared to those of other eight provinces in South Africa, using secondary data from the National Treasury Local Government Database of 2014-2017 (National Treasury, RSA, 2015e; 2016a; 2017c).

Chapter six of the study outlined the research methodology as well as the findings and results of the empirical study. The result was a rich blend, which ensured that the findings were consistent, allowed for applicability, and emphasised the truth. An experienced statistician used three computer-aided programmes, namely the Statistical package, SAS Version 9.2, for analysing the data. Descriptive statistics were used to analyse the data of the semi-structured questionnaire (qualitative) and the structured questionnaire (quantitative). Inferential analysis of the data was conducted for the structured questionnaire. The simple t-Test for independent means was used to investigate the effect of experience concerning SCM on all SCM practices where the mean score of the SCM practices were compared for the independent groups. A significant level of 0.05 was used.

7.2.4 Step Four

The last step was to make sense of the findings of the study by drawing conclusions and making recommendations. This was done by crosschecking in which chapter the research questions were answered to achieve the sub-objectives and ultimately to what extent the main objective was achieved. As part of the methodological triangulation as depicted in Table 6.36, a comparison was made between the seven similar questions from different data collection methods (qualitative and quantitative) and the findings were similar. For this study, Cronbach's alpha (α) coefficient was used to achieve the internal reliability and consistency of the research instruments. The reliability Cronbach's alpha (α) coefficient of the semi-structured questionnaire was 0.61, which was above the scale of unacceptable reliability. The Cronbach's alpha (α) reliability test of 52 items of the structured questionnaire was 0.849242, which were above the scale for moderate or good reliability, which was acceptable for this study. Thus, one could argue that the reliability of the instruments, data and findings were acceptable. The proposed framework for the management of suppliers as part of public procurement and SCM practices were illustrated and explained.

7.3 RESEARCH OBJECTIVES AND QUESTIONS

As mentioned above the main aim of the study was to promote effective procurement and SCM practices positively by developing a proposed framework for the management of suppliers as part of the public procurement management and SCM practices in district municipalities of the Free State Province. The main objective of the study was to develop a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province. The main question of the study was what aspects should be considered in the development of a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province?

The following secondary research objectives were formulated:

- a) To investigate, through an extensive literature study, statutory legislative policy guidelines, regulations and frameworks, government reports and documents, international and national procurement models/frameworks guidelines, principles, and requirements of public procurement management, municipal procurement management, municipal SCM, debt management and the management of suppliers.
- b) To determine the current status related to the implementation of the *PPPFA* (RSA, 2000) and related regulations within the district municipalities in the Free State Province.
- c) To conduct a comparative analysis of the creditors and suppliers and the payment of suppliers of municipalities in the Free State Province.
- d) To determine the perceived impact of the municipal procurement and SCM practices in relation to the socio-economic conditions of suppliers within the district municipalities in the Free State Province.
- e) To make specific recommendations based on research findings with a view to improving the effective management of suppliers related to municipal public procurement management in the Free State Province.

The following secondary research questions were used to achieve the objectives as stated above:

- a) What do the extensive literature, statutory frameworks, policy documents, international and national models/frameworks guidelines, principles and requirements emphasise concerning public procurement management, municipal procurement management, municipal SCM, debt management and the management of suppliers?
- b) What is the current status of creditors and suppliers and the payment of suppliers of municipalities in the Free State Province?
- c) What is the current status related to the implementation of the PPPFA (RSA, 2000) and related regulations within the district municipalities in the Free State Province?
- d) What is the perceived impact of the municipal procurement and SCM practices in relation to the socio-economic conditions of suppliers within the district municipalities in the Free State Province?
- e) What specific recommendations, based on research findings could be made with a view to improving the effective management of suppliers related to municipal public procurement practices in the Free State Province?

7.3.1 Achievement of the research aim, research objectives of this study

This section emphasises how the aim and objectives of the study were achieved.

7.3.1.1 The main objective of the study

The main objective of the study was to develop a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province.

The framework for the management of suppliers as part of public procurement management and SCM practices were discussed in Section 7.6.

7.3.1.2 Secondary objective one

The first secondary objective was to investigate, through an extensive literature study, statutory legislative policy guidelines, regulations and frameworks, government reports and documents, international and national procurement models/frameworks guidelines, principles, and requirements of public procurement management, municipal procurement management, municipal SCM, debt management and the management of suppliers.

In **Chapter two** of this study, an extensive theoretical literature reviews of literature and legislative framework and policy directives about public procurement and SCM was conducted. A comparative analysis of international and national models/frameworks and guidelines for procurement and SCM in municipalities were outlined. The literature review outlined in Chapter two of the study was conducted through primary and secondary sources. The primary sources were in the form of government policy guidelines, regulations, reports and legislative frameworks. The secondary sources comprised journal articles, books, conference papers, dissertations, theses, internet sources and data from the National Treasury Local Government Database 2014 to 2017. The literature review enabled the researcher to identify legislative requirements, and principles, the current challenges and lessons learned from international and national models and frameworks concerning public and SCM in municipalities.

Chapter three of the study outlined in detail public procurement and SCM practices as outlined in the National Treasury (RSA, 2005b) and contained in the *MFMA* (RSA, 2003), which is demand management, acquisition management, logistics management, disposal and performance management. The literature review enabled the researcher to identify aspects that assist suppliers' capabilities and core competencies, such as SCM tools, supplier selection, supplier relationship management and supplier development, which will contribute to prompt payment of suppliers and enhance the procurement and SCM practices in municipalities.

Chapter four outlined an overview of municipal financial management with specific reference to expenditure and debt management; the detailed statutory and legislative framework for local government and municipal financial management were discussed; an overview of local government financial management and municipal budgets were emphasised which requires application of an integrated approach. The chapter provided an analysis of the Free State municipalities' draft budget and debt management for the 2015/2016 and 2016/2017 financial years. To satisfy the objective of the study further, key role players and structures in municipal financial management, an overview of expenditure management, and an overview of debt management were provided.

In **Chapter five** of the study, an analysis of the creditors/suppliers and the payment to suppliers by the Free State municipalities were discussed by analysing the data from the National Treasury Local Government Database 2014 to 2017.

7.3.1.3 Secondary objective two

The second secondary objective was to determine the current status related to the implementation of the *PPFFA* (RSA, 2000) and related regulations within the district municipalities in the Free State Province.

In Chapter 2 of the study, it was emphasised that in terms of Section 2(i)(d) of the *PPFFA* (RSA, 2000), certain points will be allocated to tenderers who were historically disadvantaged by unfair discrimination based on race, gender and disability. In Chapter 6, it was discussed in Section 6.5.1.2 – 6.5.1.3 that 75% of the respondents were black Africans, 12% was Coloured and 12% White. Only one of 25 respondents (suppliers) was disabled and only 16% of the respondents was females. This can be argued that the lower number of disabled people and black female respondents (suppliers) could mean that the municipalities of the Free State Province does not implement *PPFFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003) effectively by awarding contracts to persons disadvantaged by unfair discrimination based on disability and gender.

Section 2.5.5 of the study explored the *PPFFA* (RSA, 2000) to establish the obligation that for contracts worth over R500 000 a minimum of 10 points can be awarded to a bidder for meeting social objectives, provided that the bid is the lowest acceptable tender and as such scores 90 points for price. For contracts worth R500 000 or less, a maximum of 20 points is awarded.

It was stated in Chapter three of this study that the Minister of Finance, in his 2017 budget speech, indicated that the National Treasury (RSA, 2011c) failed to shape the ownership and control of the South African economy. Hence the enactment of the amended National Treasury (RSA, 2017a), which increased the threshold values from R1 million to R50 million with a view to giving smaller companies a greater chance to compete in the economy in a meaningful way. In Section 6.5.2.7 it was found that 36% of the suppliers have a combined annual income less than R500 000, whereas 28% of the suppliers have an income between R500 000 and R1million and only 20% of the suppliers have an income between R1 million and R5 million and only 16% of the respondents (suppliers) have an annual income of more than R5 million. It means that 84% of the suppliers can be categorised as EME SMMEs and only 16% can be categorised as QSE SMMEs. It was also found that the majority (56%) of the suppliers have been doing business with Free State municipalities for less than five years. Only 52% of the suppliers are close corporations and have been in business from six to ten years, while the

majority of the respondents (suppliers) are still in an infant stage. The majority (76%) of the respondents (suppliers) do not employ more than 20 employees. The above findings were an indication that more needs to be done in district municipalities of the Free State Province to implement the *PPPFA* (RSA, 2000) and the *BBBEEA* (RSA, 2003) the *BBBEEA* (RSA, 2003) and the amended provisions of National Treasury (RSA, 2017a), with the aim to give smaller companies a greater chance to compete in the economy in a meaningful way.

In Chapter two of the study, it was mentioned that in terms of Section 65(2)(e) of the *MFMA* (RSA, 2003), the accounting officer of a municipality must ensure that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. It was also mentioned in Chapter two, Section 2.5.3 of the study that in terms of Section 97(3) of the *MFMA* (RSA, 2003), the accounting officer must immediately inform the parent municipality of any payment due by an organ of state to the public entity in respect of service charges if such payments are regularly in arrears for periods of more than 30 days. The findings in Section 6.5.3 of this study relating to suppliers' challenges, which stated that 48% of the suppliers that responded to the questionnaire experienced late and non-payment in the last five years. Half (50%) of the suppliers' invoices were paid beyond the stipulated time of 30 days and waited 31–60 days before receiving their payment. 25% of the suppliers spent more than six hours a week pursuing late payments. The majority (50%) are currently owed between R100 000 and R500 000, and 34% of suppliers have written off outstanding amounts of between R10 001 up to R500 000. It is therefore critical to develop a framework for management of suppliers as part of procurement practices in the district municipalities of the Free State Province.

Although the majority (60%) of the municipal official respondents indicated in Section 6.10.1 of the study, that their municipalities has mechanism in place to managed their suppliers, it is a concern that the same respondents (60%) disagreed that all suppliers were paid within 30 days of receipt of valid invoices. This is an indication that district municipalities of the Free State province have to do more to ensure that suppliers are paid within 30 days as required in Section 65(2)(e) of the *MFMA* (RSA, 2003) that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. This means that the length of time the municipality takes to pay their suppliers, and the hour's suppliers spent pursuing late payment, are not in line with the requirements Section 65(2)(e) of the *MFMA* (RSA, 2003) as indicated above. Non-

payments or late payments further implies the ineffective implementation of Section 96 and 97 of the *MSA* (RSA, 2000), which provides for the debt collection responsibility of municipalities, as well as their ability to adopt, maintain and implement a credit control and debt collection policy.

In Section 3.3.5 of the study, it was mentioned that all bid specifications, evaluations, and adjudication processes must be in accordance to Section 217 of the *Constitution* (RSA, 1996), the *PPFA* (RSA, 2000), *BBBEEA* (RSA, 2003) and National Treasury (RSA, 2017a). In Section 2.7.2.3 and in Section 3.3.2 of the study, it was further mentioned that in terms of the National Treasury (RSA, 2005b), which has been replaced by National Treasury (RSA, 2016f) requires that all municipalities must keep a list of accredited suppliers of goods and services from which to source suppliers. In Section 6.7.1 a total of 80% of the respondents (municipal officials) confirmed that quotations were accepted from SMME's suppliers who were not on the list of reliable suppliers. In Table 6.15 This is a confirmation that district municipalities and affiliated municipalities do not adhere to the requirements to procure goods and services from accredited suppliers listed on the list of reliable suppliers. In Section 6.10 it was emphasised that the Auditor-General (AGSA, RSA, 2017:56-57) cautions that late payment of SMMEs is in contradiction with the legislative requirements.

In Section 3.5 of this study, it was mentioned that in terms of *MFMA* (RSA, 2003), the disposal committee of the municipality must make all efforts to ensure that the movable assets or commodities are disposed of in accordance to prescribed procedures and the National Treasury Code of Conduct for SCM practitioners (National Treasury, RSA, 2007b). In Section 6.7.4 of this study, more than half (55%) of the respondents (municipal officials) disagree that the municipality had appointed a disposal committee in the past three years according to a disposal strategy. This is confirmation that district municipalities and their affiliated local municipalities do not have disposal committee in place as required in terms of the *MFMA* (RSA, 2003) and National Treasury (RSA, 2007b). It further implies that if municipalities do not have a disposal committee in place, it means that there will be no declaration of interest forms to be completed to ensure proper application of National Treasury (RSA, 2017a).

In Section 4.6.1.5 it was mentioned that in terms of Section 62(1)(d) of the *MFMA* (RSA, 2003), the municipal manager, as the accounting officer of the municipality, must take all reasonable steps to ensure that unauthorised, irregular, or fruitless and wasteful expenditure and other losses are prevented. The Auditor-General (AGSA, RSA, 2017:56) reported as

indicted in Section 4.6.1.5 of this study, that Free State municipalities experienced irregular expenditure of R675 million, due to deviations in relation to the use of contracts secured by other organs of state without meeting the requirements of SCM Regulations 32. Table 6.15 of the study, show that 55% of the respondents (municipal officials) disagree that the municipality approved deviations even though it was not impractical to invite competitive bids, that resulted in irregular expenditure. It was argued that the respondents did not tell the truth. The above is a confirmation that district municipalities and affiliated local municipalities of the Free State Province indeed deviate from SCM regulations and policies that results in irregular expenditure as reported by the Auditor-General (AGSA, RSA, 2078:56).

7.3.1.4 Secondary objective three

The third secondary objective was to conduct a comparative analysis of the creditors and suppliers and the payment of suppliers of municipalities in the Free State Province.

As indicated in Chapter five of this study, the quarterly and yearly comparative analysis of the amounts owed by the Free State municipalities to creditors at the end of the 2016/2017 financial year amounted to R31 billion. The total amount owed to municipalities in the Free State was R15,458,038.00 in 2014/2015, in 2016/2017 it was R22, 085,656.00 and it grew to R31,485,111 in 2016//2017, as illustrated in Figure 5.9 of Chapter five. The comparative analysis of the nine provinces of South Africa over the period 2014–2017 indicates that municipalities in the Free State Province owe suppliers and creditors the second highest amount per province. The comparative analysis of the creditors and suppliers and the payment of suppliers of municipalities in the Free State Province as provided in Chapter five of this study, corresponds with the findings of findings as provided in Section 6.5.3.2 that 48% of the respondents (suppliers) experienced late payments of invoices in the last five years. In Section 6.7.3. a total of 85% of the respondents (municipal officials) agreed that they had measures in place to process invoices for payment within a particular timeframe, while 65% of the respondents (municipal officials) agreed that thy had instances where the period for late payment to creditors exceeded 120 days in the past three years. This is a confirmation that district and affiliated municipalities has measures in place to ensure that invoices for payment within the required timeframes are processed, but that district municipalities and affiliated municipalities of the Free State Province still exceeded 120 days for the payment of creditors and suppliers, which is in contradiction with the requirements of Section 65(2)(e) of the *MFMA* (RSA, 2003).

7.3.1.5 Secondary objective four

The fourth secondary research objective was to determine the perceived impact of the municipal procurement and SCM practices in relation to the socio-economic conditions of suppliers within the district municipalities in the Free State Province.

Table 6.20 in Chapter six illustrates data obtained from the structured questionnaire distributed to suppliers doing business with district municipalities and one local municipality affiliated to each district municipality of the Free State Province, where the objective was to determine the perceived impact of the municipal procurement practices in relation to the socio-economic conditions of suppliers within the district municipalities of the Free State Province. Based on the responses, 80% of the respondents strongly agreed that late payment of invoices, as one of the procurement practices, damages the business and personal reputation of suppliers and 76% indicated that they were unable to complete projects due to late and non-payment of invoices. The majority (72%) of the suppliers lived in fear that their subcontractor's might take them to court due to non-payment; 72% of the respondents indicated that they suffered psychologically; and 52% indicated that municipalities did not pay interest on all overdue accounts. The above views indicate late payment as one of the municipal procurement practices that has a negative impact on the socio-economic conditions of suppliers. This corresponds with the findings as illustrated in in Figure 6.16 that the majority of the respondents (suppliers) waited 31 to 60 days before receiving their payment; a combined percentage of 42% of suppliers waited between 61 and 120 days to receive payment; and 8% of the suppliers were paid after a period of 120 days. Figure 6.17 illustrated that the majority (50%) of the respondents (suppliers) were owed between R100 000 and R500 000; and 8% of the respondents (suppliers) were owed more than R500 000. Figure 6.19 illustrated that the non-payment of services rendered by 51% of the respondents (suppliers) lead to the loss of income of more than R10 001. It was also emphasised that suppliers in the Free State who are not paid for the services, goods and works delivered within 30 days, could go bankrupt. This confirms that district municipalities and their affiliated local municipalities in the Free State province non-payment or late payment has a negative impact on the socio-economic conditions of the majority of the EME suppliers who supplied the district municipalities of the Free State Province of services and goods.

7.3.1.6 Secondary objective five

The last secondary research objective was to make specific recommendations based on research findings with a view to improving the effective management of suppliers related to municipal public procurement management in the Free State Province.

The recommendations are discussed in Section 7.5 to 7.7 below.

7.4 REVIEW OF THE CHAPTERS

As mentioned above, the main aim of the study was to promote effective procurement and SCM practices by developing a framework for the management of suppliers, as part of public procurement management and SCM practices in district municipalities of the Free State Province. The study was divided into seven chapters.

Chapter one introduced the study by discussing the background to the study, outlining the problem statement, aim, research objectives and questions, research methodology, design, and ethical considerations and limitations. In Chapter two of this study, an intensive overview was given of literature related to procurement and SCM. The chapter provided a discussion about the shift from public procurement to SCM, the statutory and legislative frameworks of procurement and SCM in local government, role players in SCM, advantages of SCM, categories of SCM, e-Procurement, and international and national models and guidelines for procurement and SCM in municipalities. In Chapter three of this study SCM in local government, demand management, acquisition management, logistic management, disposal management, purchasing and suppliers, SCM tools and control measures were discussed. Supplier selection, purchasing and suppliers, the list of accredited suppliers to procured goods and services, supplier relationship management and supplier development were outlined. Followed by a discussion about the outstanding accounts and payment to supplier invoices, reasons for late and non-payment to suppliers by municipalities. Lastly, an evaluation of late and non-payment to suppliers or creditors over three years at municipalities in the Free State Provinces was discussed. Chapter four outlined an overview of municipal financial management with specific reference to expenditure and debt management; statutory and legislative framework for local government and municipal financial management; an overview of local government financial management and municipal budgets; an analysis of the free state municipalities draft budget and debt management for 2015/2016 and 2016/2017 financial year; key role players and structures in municipal financial management; an overview of expenditure

management; and an overview of debt management. Chapter five provided the description of the following: creditors of the Free State municipalities; the creditors' payment cycle; status of creditors of Free State municipalities over the financial years 2014 to 2017; outstanding payment to creditors of the Free State Municipalities over the 2014-2015, 2015-2016, 2016-2017 financial years; sources of financing municipal creditors; composition of annual budget; composition of operating budget; composition of capital budget; budgeted capital expenditure; and customer service. In Chapter Six, the research methodology and findings were discussed, including the analysis and interpretation of the data. The study was based on a pragmatic paradigm or mixed-method research that used mainly qualitative research methods, supported by quantitative research. A descriptive case study research design was used to achieve the research objectives and to answer the research questions of this study. Both descriptive and inferential statistical data were used with the structured questionnaire. Chapter seven concluded the study by discussing the conclusions drawn from the study, suggesting some recommendations and highlighting the limitations of the study, as well as the implications for further research. The proposed framework for the management of suppliers as part of public procurement and SCM practices in district municipalities of the Free State Province was provided, suggesting some recommendations and highlighting the limitations of the study, as well as the implications for further research.

7.5 RECOMMENDATIONS FROM LITERATURE REVIEW

The following recommendations are recommended from the literature chapters (Chapter two to four):

Firstly, all district municipalities and affiliated local municipalities must settle all contractual obligations within 30 days of receiving valid statements. Thus, the payment of suppliers within the stipulated period must be included as a performance target and the accounting officer must be held accountable for non-compliance. In Section 2.5.3 of Chapter two of this study, it was explained that in terms of Section 65(2)(e) MFMA (RSA, 2003), all municipalities in South Africa need to settle all contractual obligations within 30 days of receiving valid statements. The literature confirms that the problem of long payment cycle of creditors by municipalities is still persistent. The literature further shows that a total of 21 municipalities did not pay their suppliers within the stipulated period in 2016-2017. A total of 77% of the municipalities have not included the payment of suppliers within the stipulated period as a performance target (National Treasury, RSA, 2016f; AGSA, RSA, 2017:53).

Secondly, all district municipalities and affiliated local municipalities must have an SCM policy to give effect to the constitutional requirements to provide for a fair, equitable, transparent, competitive, cost-effective and effective SCM system. Section 217 of the Constitution (RSA, 1996) mandates that SCM practices should be fair, equitable, transparent, competitive and cost-effective. To achieve the above constitutional principles, it is recommended that all municipalities of the Free State Province incorporate the following stages in their procurement and SCM practices, namely:

- **The needs assessment stage.** During this step, the primary aim is to ensure that the municipality accurately determines the commodities and services to be procured within the financial year. The intention is to ensure that all planned demands are acquired based on the municipalities IDP which is developed during the municipalities strategic planning process.
- **Needs are linked to the budget stage.** Once the municipal council has approved the municipalities IDMP, the SCM manager should prioritise all necessities in terms of envisaged funds, and incorporate costs such as contingency costs, manufacturer's costs, depreciation of the rand and Value Added Tax in the budget to ensure prudent financial management.
- **Drafting of specifications stage.** In terms of the National Treasury (RSA, 2005b) municipalities and municipal entities must appoint a bid specification committee with clear roles and responsibilities, as well as a period of appointment. Bid specification committee members of municipalities and municipal entities are appointed to compile specification that allows and advances the objectives to promote social and local development, as required in accordance with Section 2(1)(d) of the *PPPFA* (RSA, 2000) and Section 2(c), (d) and (e) of the *BBBEEA* (RSA, 2003). The *PPPFA* (RSA, 2000) provides for the advancement of categories of persons previously disadvantaged by unfair discrimination and economic empowerment (blacks, including women, workers, youth, people with disabilities and people living in rural areas), and to enable the emergence of SMME suppliers and contractors.
- **Expenditure analysis stage.** The expenditure analysis stage should assist municipalities and municipal entities to be well informed about the different aspects of the various commodities they intend acquiring. The expenditure analysis should include an analysis of the following: commodity prices; transport costs; maintenance

cost; supply costs; availability of spare parts; period in the market; after sales support; and other relevant costs; with a view to assisting end users in clarifying their needs. Such an analysis further assists municipalities and municipal entities to identify, select and manage suppliers better and in turn ensures that the goods or commodities are acquired at the lowest total cost of the municipality.

- **Market and industry analysis stage.** The market and industry analysis stage forms part of planning whereby municipality and their entities develop knowledge about the various aspects and cost bases of different kinds of supply groups, which includes SMMEs, emerging companies, large corporate companies, foreign suppliers and local suppliers.

Thirdly, all district municipalities and affiliated local municipalities have to implement a procurement and SCM policy providing for categories of preference in the allocation of contracts, and for the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination. Section 217(2) of the Constitution (RSA, 1996) empowers municipalities to implement 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, disadvantaged by unfair discrimination. Section 217 (3) of the Constitution (RSA, 1996) further provides that national legislation must prescribe a framework within which the preference policy may be implemented.

Fourthly, no municipality is allowed to award any bid for price quotations to a bidder not registered on the CSD (National Treasury, RSA, 2016f). It requires that the current list of prospective bidders must be aligned with the provisions of the CSD. The CSD requires that price quotations be invited and accepted from prospective suppliers listed on CSD. It was highlighted that municipalities and their entities are not allowed to award any bid for price quotations to a bidder not registered on the CSD.

Fifthly, all district municipalities and affiliated local municipalities have to practise SCM within the demand, acquisition, logistics and disposal management areas. The National Treasury (RSA, 2005b) as provided in Section, 3.2, Chapter three of this study, requires that SCM be practised within demand, acquisition, logistics and disposal management areas. Demand management in particular plays an essential part in SCM to ensure that all planned commodities and services identified during the strategic planning process are delivered at the

correct time, price and place, and that the quantity and the quality will be of requisite satisfaction and from the right supplier within the confines of the National Treasury (RSA, 2017a) and *BBBEEA (RSA, 2003)*.

Sixthly, all district municipalities and affiliated local municipalities must have strategies and mechanisms in place to improve supplier relationships, supplier performance evaluation, certification and the development of suppliers. In Section 3.11, Chapter three of this study, it was mentioned that the following factors need to be in place to strengthen the supplier relationship and build trust, to create a shared vision and objectives, mutual benefits and needs commitment and top management support, information sharing and open lines of communication, and continuous improvements. Top management should lay down policy guidelines that indicate the manner in which the municipality and their entities wish to become involved in the development of SMME suppliers, and if so, in what form and to what extent. The literature of this study suggested the three ways in which the municipality and a municipal entity could become involved in the development of suppliers are in terms of ring fencing certain sizes of tenders and certain scales of infrastructure projects, and to ensure that municipalities focused on assisting and supporting SMME suppliers.

Lastly, all district municipalities and affiliated local municipalities have to implement effective municipal financial management controls and effective debt management practices. It was emphasised in Chapter four of this study that municipalities in the Free State Province have deficiencies concerning their municipal financial management controls and debt management, which contributes to serious debt management challenges. It was also emphasised that suppliers in the Free State who are not paid for the services, goods and works delivered within 30 days, always go bankrupt.

7.6 RECOMMENDATIONS FROM THE COMPARATIVE ANALYSIS CHAPTER AND THE EMPIRICAL STUDY

Based on the findings of the comparative analysis chapter (Chapter five) and the empirical study (Chapter six) the following are recommended:

- All district municipalities of the Free State Province and affiliated local municipalities must give effect to the requirements of the *MFMA (RSA, 2003)*, the *PPPFA (RSA, 2000)*, the National Treasury, (RSA, 2005b) and the National Treasury (RSA, 2017a) to promote the effective management of procurement and SCM systems. This will also

promote good relations between the municipality and suppliers with a view to creating opportunities for SMMEs to grow the economy and to create jobs. The promotion of good relationships with reliable suppliers will reduce the length of time it takes a municipality to make payments and it will reduce the hours that suppliers spend in a week pursuing late payments.

- The accounting officer of all district municipalities of the Free State Province and affiliated local municipalities must ensure that all money owed by the municipality must be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.
- All district municipalities of the Free State Province and affiliated local municipalities must plan for all their procurement and SCM needs during the strategic planning process. The procurement plan must be aligned with the budget. This will contribute to the prompt payment of suppliers and enhance the procurement and SCM practices in the district municipalities of the Free State Province. Procuring goods, services and construction work that are not on the approved procurement plan and not aligned to the approved budget will exhaust the cash flow of municipalities. It will also reduce irregular expenditure due to interest and penalties on late payment to suppliers.
- All district municipalities of the Free State Province and affiliated local municipalities must put mechanisms in place to manage their municipal budgets in an effective way and to ensure proper oversight of budgets, which should assist municipalities with early warning regarding imminent cash flow crises that will affect payment of suppliers and other creditors within 30 days.
- The selection of suppliers should be managed in terms of the requirements of the National Treasury (RSA, 2005b) and the National Treasury (RSA, 2016f) which require that price quotations be invited and accepted from prospective suppliers listed on the CSD Provision, and should be made to select more previously disadvantaged female and disabled suppliers.
- All district municipalities of the Free State Province and affiliated local municipalities must have credit control mechanisms and debt management strategies in place to manage municipal finances in accordance with the requirements of the MFMA (RSA, 2003).

- All district municipalities of the Free State Province and affiliated local municipalities must have a disposal strategy in place, as well as to ensure that a disposal committee is established. The appointment of a disposal committee that will approve the municipalities disposal strategy must ensure that experienced SMMEs be appointed to dispose of redundant material, as well as to maintain the database of redundant material, to improve the disposal management within the municipality.
- The MPACs must investigate tenders awarded to people working in the municipality.
- The skills levels of procurement officials need to be upgraded to enable them to implement procurement management practices effectively.

7.7 PROPOSED FRAMEWORK FOR THE MANAGEMENT OF SUPPLIERS AS PART OF PUBLIC PROCUREMENT AND SCM MANAGEMENT PRACTICES

The main objective of the study was to develop a framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province. For the purpose of this study, a framework refers to a basic structure that consists of underlying concepts that can be used to plan for something such as the management of suppliers as part of public procurement and SCM practices in district municipalities of the Free State Province (Anon, 2018:1).

The proposed framework was developed based on the literature study, the comparative analysis and the empirical findings of this study. The proposed framework for the management of suppliers as part of public procurement management and SCM practices in district and affiliated municipalities of the Free State Province, provides a process map that outlines the various components that should be used for the effective management of suppliers as part of public procurement and SCM practices within a municipality. The proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province is illustrated in Figure 7.1 below.

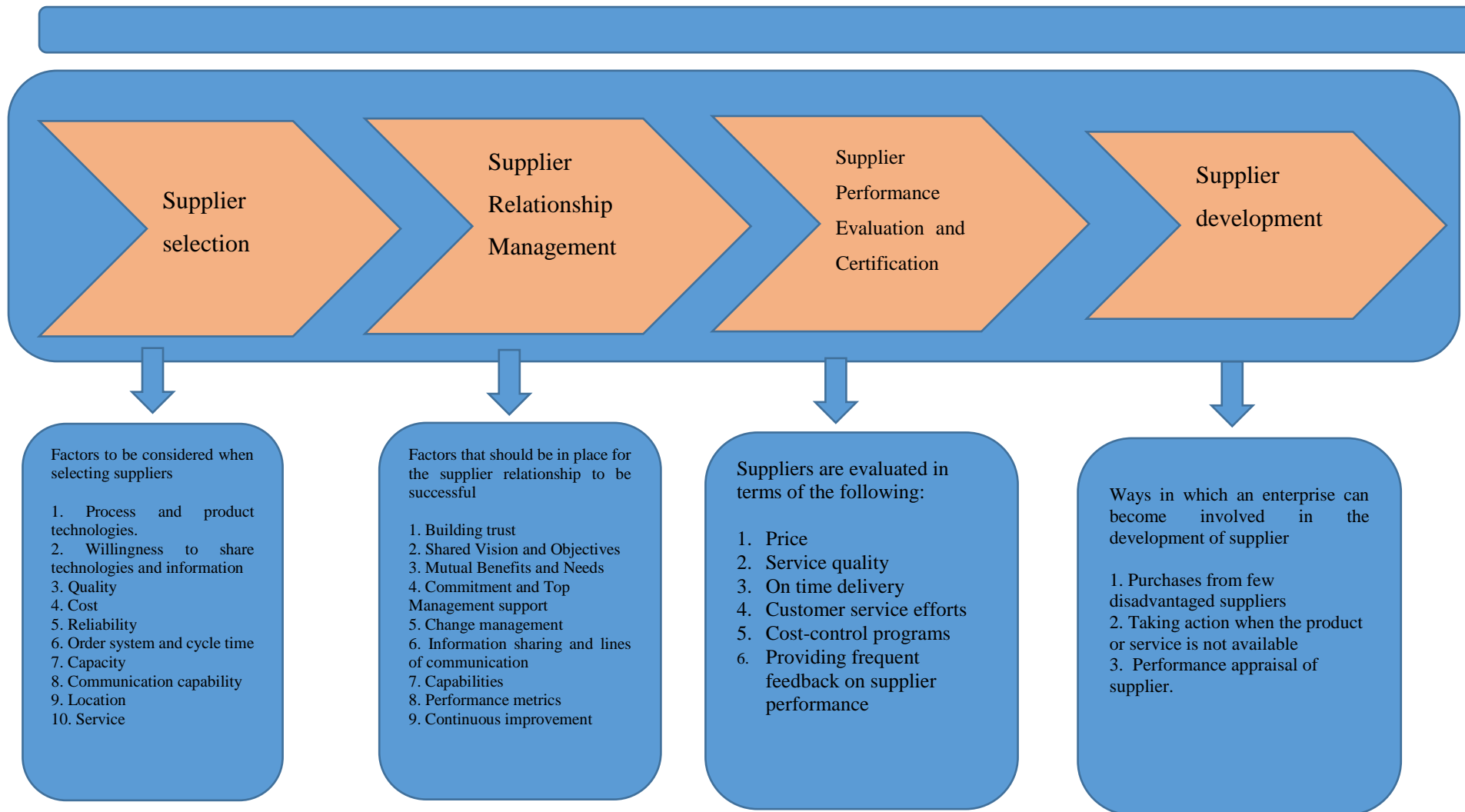


Figure 7.1 Figure 7.1: Proposed Framework for the Management of Suppliers as part of procurement and SCM practices of district municipalities of the Free State Province

The above-proposed framework recognises that procurement and SCM practices require pursuing of strategic responsibilities, which are those activities that have a major impact on longer-term performance of district municipalities of the Free State Province. The following components or activities of the proposed framework can be seen as an imperative to resolve the challenges of ineffective public procurement practices and SCM with specific reference to the management of suppliers in district municipalities in the Free State Province.

7.7.1 Supplier selection

The selection of the right supplier is critical for the success of any goods or services provided by suppliers. According to Hugo *et al.* (2002:162), selection of the right supplier is essential for success in the procurement and SCM, since it influences the success of the entire practice, such as demand, acquisition, logistics and disposal management. Supplier selection refers to the process by which public and private sector bodies identify and evaluate suppliers they want to do business with. Therefore, the following criteria or factors should be considered by all district municipalities of the Free State Province and affiliated local municipalities while selecting suppliers:

- **Process and product technologies.** Suppliers should have competent process technologies to render effective services or to produce goods at a reasonable cost to enhance the buyer's competitive edge.
- **Willingness to share technologies and information.** It is important that municipalities seek suppliers that are willing to share their technologies and information about the particular service or goods with the municipality. In this way, suppliers can assist in new product design and the development thereof through early supplier involvement (ESI), to ensure cost-effective design choices or to develop alternative conceptual solutions. By increasing the involvement of the supplier in the design process of a product or service provided by a particular supplier, the district municipality will be able to focus more attention on cost effectiveness and quality. Thus, willingness to share their technologies and information is a critical aspect when selecting a suitable supplier.
- **Quality.** Quality levels of the purchased item should be a very important factor in supplier selection. Product quality or the quality of a service provided should be high and consistent since it can directly affect the quality of the finished service or goods.

- **Cost.** While unit price of the material is not typically the sole criterion in supplier selection, total cost of ownership includes the unit price of the material, payment terms, cash discount, ordering cost, carrying cost, logistical costs, maintenance costs and other, more qualitative costs that may not be easy to assess. The total cost analysis demonstrates how other costs besides unit price can affect the decision of selecting a supplier.
- **Reliability.** Besides quality and cost, reliability is critical when selecting a supplier. Reliability refers to other supplier characteristics such as whether the supplier is financially stable. Otherwise, the supplier may not be able to invest in research and development quality services and goods or to stay in business. Another reliability concern that should be considered when selecting a supplier is whether the supplier is able to deliver on time. When selecting a suitable supplier, the municipality should take reliability of the supplier into consideration to ensure the supplier has the ability to render a sustainable service or deliver sustainable goods to the municipality on a timely basis.
- **Order system and cycle time.** When selecting a suitable supplier from the CSD, the district municipality should ensure that the supplier delivery lead-time would be short, so that small lot sizes can be ordered on a frequent basis to reduce inventory-holding costs. The placement of orders with a supplier should be easy, quick and effective.
- **Capacity.** Capacity is a critical aspect that should be considered when selecting a supplier. The district municipality should also consider whether the supplier has the capacity to fill orders to meet requirements, to deliver a quality service or goods, and whether the supplier has the ability to fill large orders if needed.
- **Communication capability.** Another important aspect when selecting a suitable supplier from the CSD is the communication capability of the supplier. Suppliers should also possess a communication capability that facilitates communication between the parties.
- **Location.** The district municipality should consider the geographical location of the supplier when selecting a supplier from the CSD. The geographical location impacts delivery lead-time, transportation and logistical costs. A municipality should focus on suppliers who are located within a certain distance from the municipality or the point of delivery.

- **Service.** After-service by suppliers is a critical aspect when selecting a supplier. The supplier must be able to back up their products by providing good service when needed. For example, when product information or warranty service is needed, suppliers must respond on a timely basis.

The above aspects are critical and need to be considered when district municipalities of the Free State Province and affiliated local municipalities select a supplier from the CSD. As show in the findings of this study, district municipalities of the Free State are challenged with late payment of suppliers due to insufficient cash flow; therefore, selecting the right suppliers and managing these relationships successfully over time will result in cost cutting. The next component in the proposed framework is supplier relationship management.

7.7.2 Supplier relationship management

District municipalities of the Free State Province should promote, establish and manage a sound relationship with their suppliers. The CIPS (2012:2) defines supplier relationship management as a set of principles, processes and tools that can assist all district municipalities of the Free State Province and affiliated local municipalities to maximise relationships with suppliers, and to minimise risk and management of overhead through the entire supplier relationship life cycle. Thus, effective supplier relationship management requires a clear understanding of which suppliers are the most strategic to the municipality and which are less important, rather than viewing the suppliers on which the municipality spends the most resources as the most important. The following factors should be considered to promote effective supplier relationship management as part of procurement and SCM practices between district municipalities of the Free State Province and their suppliers:

- **Building Trust.** Trust is critical for any partnership or supplier relationship. Trust enables a municipality to share valuable information, devote time and resources to understand each other's business, and achieve results beyond what could have been done individually.
- **Shared Vision and Objectives.** All partnerships should state the expectations of the buyer (municipality) and the supplier. The reasons and objectives of the partnership, and plans for the dissolution of the relationship, should be clarified in the contract. For instance, payment terms and performance terms must be stated clearly. The risk of late payment will be mitigated by clearly stating the objectives of the partnership.

Both partners must share the same vision and have objectives that are not only clear, but also mutually agreeable.

- **Mutual Benefits and Needs.** The relationship or partnership between all district municipalities of the Free State Province and affiliated local municipalities and a supplier should result in a win-win situation, which can only be achieved if both partners have compatible needs. Mutual needs not only create an environment conducive to collaboration, but also opportunities for increased innovation. When both parties share in the benefits of the partnership, the relationship will be productive and long lasting.
- **Commitment and Top Management Support.** Commitment must start at the highest management level within a municipality. The Auditor-General indicates that weak control, leadership and accountability of municipal management of the Free State Province is a concern (AGSA, RSA, 2017:56-57). Thus, commitment and top management support is required to establish an effective relationship between a particular municipality and suppliers. The level of cooperation and involvement shown by a municipality's top managers is likely to set the tone for joint problem solving further down the line.
- **Change management.** With change comes stress, which can lead to loss of focus. As such, municipalities must avoid distraction from their core business because of changes brought about by supplier partnership.
- **Information sharing and lines of communication.** Confidentiality of sensitive financial, product and process information must be maintained. Any conflict that occurs can be resolved if the channels of communication are open. For instance, early communication to suppliers of specification changes and new product introductions are contributing factors to the success of the procurement partnership. The contract between a municipality and the supplier must clearly specify requirements concerning information sharing and the lines of communication.
- **Capabilities.** Municipalities must develop the right capabilities for creating long-term relationships with their suppliers. Key suppliers must have the right technology and capabilities to meet cost, quality and deliver requirements. Suppliers must be sufficiently flexible to respond quickly to changing customer requirements. Before entering into any partnership, it is imperative for a municipality to conduct a thorough

investigation of the supplier's capabilities and core competencies. Only suppliers listed on the CSD with the right capabilities must be used.

- **Performance metrics.** By evaluating supplier performance, municipalities should be able to identify suppliers with exceptional performance or developmental needs, improve supplier communication, reduce risk and manage the partnership based on an analysis of reported data. Information provided by supplier performance will be used to improve the entire supply chain.
- **Continuous improvement.** The process of evaluating suppliers based on a set of mutually agreed performance measures provides opportunities for continuous improvement. Both the municipality and suppliers must be willing to improve their capabilities in meeting customer requirements of cost, quality, delivery and technology continuously. Partners should not focus on merely correcting mistakes but work proactively toward eliminating them. Municipalities must work with suppliers on continuous improvement programmes to ensure that products and services meet customer requirements.

The next component in the proposed framework, namely supplier performance evaluation and certification, is outlined in the section below.

7.7.3 Supplier performance evaluation and certification

According to Pikousová and Průša (2013:3) evaluating the performance of suppliers is of strategic importance for any organisation, including a municipality, hence suppliers should be evaluated based on delivery performance, quality and price. Pikousová and Průša (2013:4), as referred to in Chapter 3.3.6, provided the criteria buyers previously used to evaluate the performance of suppliers, which includes the following:

- Quality is one of the main criteria in supplier performance. Evaluation depends partly on how set targets are met and how supplier output relates to best practices.
- Delivery is the application of logistic management. Evaluation of delivery includes assessment of the supplier's ability to meet the requirements for on-time deliveries and ordered quantities, and a buyer should have an appropriate system in place for effective assessment.

- Price is the first and the last criterion when deciding to award business to a supplier. Each response to an offer starts with the price. When evaluating suppliers, criteria for price development, prices of current and future business, redistribution of current business, other savings and new distribution modes in case of extensions need to be considered.

Hugo *et al.* (2002:152-153), Leenders *et al.* (2006:263) and Wisner *et al.* (2012:55-56) further provide that many organisations, including municipalities for the purpose of this study, rack product and service quality, on-time deliveries, customer service efforts and cost-control programmes as part of the supplier rating system. This information can be used to develop supplier programmes that will help eliminate problems or improve supply chain performance. Thus, by implementing an effective supplier certification programme, it will assist district municipalities and affiliated local municipalities in reducing the reliable supplier base listed on the CSD, building long-term relationships, reducing time spent with critical incoming inspections, improving delivery and responsiveness, recognising excellence, developing a commitment to continuous improvement and improving overall performance. All cost-control programmes will leave more cash flow in the hands of municipalities, which will contribute to prompt payment of suppliers and enhance the procurement and SCM practices in district municipalities of the Free State Province.

7.7.4 Supplier development

The last component in the proposed framework is supplier development. The proposed framework recognises that the top management of municipalities should lay down policy guidelines that indicate whether the municipality wishes to become involved in the development of SMME suppliers and if so, in what form and to what extent. Three main ways in which a municipality can become involved in the development of suppliers are in terms of purchases from a few disadvantaged suppliers, taking action when the product or service is not available, and performance appraisal of suppliers (Hugo *et al.*, 2002:136). Thus, engaging in supplier development, which forms part of supplier management, would assist a district municipality and the affiliated local municipalities by contributing to achieving one of the criteria as indicated in the National Development Plan NDP (RSA, 2011), which seeks to bring most SMMEs to the mainstream economy by 2030.

In the light of the above, the proposed framework, as illustrated in Figure 7.1, provides a coherent and holistic step by step approach by identifying key components and the criteria

required to promote and improve the management of suppliers, as part of public procurement management and SCM practices in district municipalities and affiliated local municipalities of the Free State Province, in an effective manner.

7.8 OTHER RECOMMENDATIONS FOR THE MANAGEMENT OF SUPPLIERS AS PART OF PUBLIC PROCUREMENT MANAGEMENT AND SCM PRACTICES

In addition to the proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province, the following is recommended in order to improve management of suppliers as part of public procurement management and SCM practices of district municipalities of the Free State Province:

- Each district municipality and affiliated local municipalities, as municipal entities of the Free State Province, should have standard training programmes designed to empower SMMEs on procurement practices.
- Adequate monitoring and evaluation on municipal procurement and SCM practices of district municipalities of the Free State Province is critical, to ensure compliance of MFMA, (RSA, 2003), the National Treasury, Municipal SCM Regulations (RSA, 2005a), and other applicable acts and regulations.
- Practitioners who are hired in the municipal procurement sections of the Free State Province should have proper procurement and SCM qualifications.
- Procurement and SCM regulations, policies, delegations, and Codes of Conduct should be discussed quarterly amongst procurement management and practitioners of the Free State province. The skills levels of procurement officials need to be upgraded to enable them to deal with new SCM challenges.

7.9 LIMITATIONS OF THE STUDY

As explained in Chapter one the limitations of the study were limited by the following external circumstances over which the researcher does not have any control, namely:

- **Generalisation of findings.** The findings of the study are restricted to respondents based in one particular geographical location, namely the Free State Province.

Therefore, caution should be exercised regarding the generalisation of the findings to other provinces or municipalities in the country and beyond.

- **Suppliers' willingness to participate.** Suppliers' willingness to participate due to fear of losing business deals with district municipalities of the Free State Province.
- **Municipal officials' unavailability and lack of commitment or honesty.** Municipal officials' unavailability and their lack of commitment due to fear that they may be caught for certain non-compliance issues could also mean that some of the municipal officials resolved not to tell the truth. Furthermore, the researcher is a senior official appointed as a SCM specialist, at the Provincial Treasury of the Free State Province. The latter could have an effect on the perceptions and the manner in which the municipal officials answer the questions in the structured questionnaire.
- **Financial and personnel constraints.** Some district municipalities may not have procured anything in that particular financial year due to their budget being depleted before the end of the financial year, or suspension of officials.

7.10 IMPLICATIONS FOR FURTHER RESEARCH

Further research of the current study could be extended to examine public procurement management and SCM practices and the impact thereof on the socio-economic conditions of suppliers doing business with provincial spheres of the Free State Province and compared to other provinces in South Africa. In this study, two data sets were obtained, one from suppliers that were doing business with the Free State district, the other one from municipal managers, CFO's and head of SCM of the district municipality and one local municipality affiliated to the district municipality. Further studies will indicate whether the outcomes at provincial sphere are consistent with or different to the findings of this research.

Based on this, future research should be extended deeper to examine public procurement management and SCM practices and the impact thereof on the socio-economic conditions of suppliers doing business with provincial sphere of the Free State Province. Such a study could be based on quantitative research.

Conduct a study to examine whether the National Treasury (RSA, 2017a) is understood by procurement officials at national, provincial and local government sphere and whether it is applied in the same way to achieve its objectives. The study could examine the understanding

of Regulation 4: Sub-Contracting criteria, and Regulation 11: Awarding of contracts to tenderers not scoring the highest points.

Conduct a study to examine supplier management in public sector procurement, as there are hardly any studies that focus on supplier management in South African public institutions; hence the need for the study.

7.11 SUMMARY

The aim of the study was to promote effective procurement and SCM practices positively by developing a framework for the management of suppliers as part of public procurement management practices and SCM practices in district municipalities of the Free State Province.

The findings of the study emphasised that the South African government prioritises public procurement and suppliers by establishing the OCPO, which was established at the National Treasury to focus on reforming procurement and SCM in all spheres of government. Furthermore, a ministry that focuses on the development of SMME suppliers was created to demonstrate the government's commitment to redress past imbalances. The SMME suppliers' socio-economic conditions need significant impact. However, this has not been the case; hence, it is important to regularly assess their situation.

Municipalities in South Africa are mandated to develop the socio-economic conditions of communities. The municipalities are obliged to procure goods and services from SMME suppliers to satisfy the needs of communities, utilising public procurement management and SCM practices based on pieces of legislation. Municipalities enter into lawful contracts with SMME suppliers to supply goods and services that respond to the needs of their communities. However, these suppliers are paid late or not paid at all after submission of valid invoices, which costs the government extra, because the new procurement process of appointing a new supplier has to start.

SMME suppliers play a significant role in communities due to their contribution to innovation, job creation and economic growth, hence their early payment would result in a substantial income to influence their socio-economic conditions positively, and those of the communities they serve. Municipalities would be in a position to pay valid invoices promptly if they incorporate management of suppliers as part of procurement and SCM practices.

It was emphasised that a total of 84.9% of municipalities in the Free State are in arrears with their payment of suppliers for a period exceeding 90 days. The findings of the study show that the majority of the suppliers agree that late payment damages business and personal reputation. These findings clarify that the perceived impact of the *PPPFA* (RSA, 2000) and the *MFMA* (RSA, 2003) on the suppliers, as part of procurement and SCM management practices in district municipalities in the Free State Province, is negative due to the huge outstanding amounts owed to suppliers doing business with municipalities. The huge outstanding amounts could be related to ineffective management of suppliers as part of procurement management practices. The chapter emphasised that in-year reporting is a tool that facilitates transparency, better in-year management and the oversight of budgets, which should assist municipalities with early warning regarding imminent cash-flow crises, which will affect payment of suppliers and other creditors within 30 days.

The National Treasury implemented many mechanisms, such as SCM Circulars and Regulations, to assist municipalities with the late and non-payment of SMME suppliers. However, municipalities fail to pay creditors and SMME suppliers on time. For the purpose of this study, one could argue that the latter situation undermines the legislative requirements provided by the *PPPFA* (RSA, 2000), *BBBEEA* (RSA, 2003) and the *CIDBA* (RSA, 2000), which intended to positively affect the lives of SMME suppliers doing business with the government. It was highlighted in the literature chapters of this study that in terms of Section 65(2)(e) and 99(2)(b) of the *MFMA* (RSA, 2003), reasonable steps have to be taken to ensure that all suppliers are paid within 30 days of receiving correct invoices and statements. Thus, it is important for municipalities to enforce shorter payment cycles for SMME suppliers to avoid the effects of late and non-payment of invoices, which affects township and rural businesses, youth and women-owned SMMEs. There is also a need for the National Treasury to relieve municipalities that are in arrears with payment of suppliers of bulk services. If municipalities persist with late and non-payment, communities will experience service delivery that is not responsive to their needs. These findings clarify that the perceived impact of the *PPPFA* (RSA, 2000) and the *MFMA* (RSA, 2003) on the suppliers, as part of procurement management practices in district municipalities in the Free State Province, is negative due to the huge outstanding amounts owed to suppliers doing business with municipalities. These outstanding amounts could be related to ineffective management of suppliers as part of procurement management practices. The study shows that 100% of the municipal officials of the district municipalities and affiliated local municipalities indicated that they agreed that there is indeed

a need to develop the proposed framework for the management of suppliers as part of public procurement management and SCM practices in district municipalities of the Free State Province. The proposed framework provides a coherent and holistic step-by-step approach by identifying key components and criteria required to promote and improve the management of suppliers as part of public procurement management and SCM practices in district municipalities and affiliated local municipalities of the Free State Province in an effective manner.

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LETTER REQUESTING PERMISSION TO CONDUCT RESEARCH

Head of Department
Free State Provincial Treasury
7th Floor, Fidel Castro Building
Bloemfontein

Dear Mr. MNG Mahlatsi

REQUEST FOR PERMISSION TO PARTICIPATE IN PhD RESEARCH

I, Ms Mpho Tshilo working for the Free State Provincial Treasury, Supply Chain Management Compliance also a Doctoral Public Management student, busy with doctoral studies at the Central University of Technology, Free State (CUT).

I am conducting a research to probe the effects of late payment by district municipalities on the SMME suppliers' socio economic conditions.

This letter seeks to notify you and request your consent to the participation of Municipal Managers, Chief Financial Officers and Heads of SCM within the Free State district municipalities in self-administered questionnaire or semi structured interviews. I commit that the findings of this research will remain private and confidential and will be used solely for the stated academic purpose.

Individual letters requesting the contribution of the Municipal Managers, Chief Financial Officers and Heads of SCM will be prepared and submitted after permission to participate is granted by Provincial Treasury.

The results from questionnaire and interviews are of utmost importance as they will benefit the researcher to complete and submit her PhD thesis and the findings of the research will assist municipalities in the Free State by offering recommendations to enhance municipal procurement management practices.

I hope to conduct Interviews and Questionnaires from 01 June to 31 June 2017.

Thanking you in anticipation.

Yours faithfully,



Ms Mpho Tshilo

Tel: 051 405 4781 (work); Cell: 072 141 6402; Email: Tshilo.Mpho@treasury.fs.gov.za

Permission granted / ~~not~~ granted



Mr. MNG Mahlatsi

HOD: Provincial Treasury

Date: 05/05/2017

ANNEXURE B

CENTRAL UNIVERSITY OF TECHNOLOGY, FREE STATE
SENTRALE UNIVERSITEIT VIR TEGNOLOGIE, VRYSTAAT
YUNIVESITHI E BOHARENG YA THEKENOLOJI, FOREISTATA

TO: WHOM IT MAY CONCERN

FROM: PROF T. VAN NIEKERK

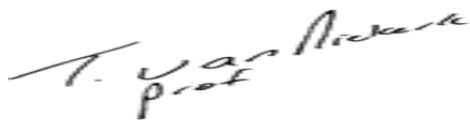
HEAD OF DEPARTMENT, DEPARTMENT OF GOVERNMENT MANAGEMENT

DATE: 24 MAY 2017

SUBJECT: CONFIRMATION THAT MRS MJA TSHILO IS A REGISTERED DOCTORAL STUDENT BUSY WITH THE DOCTOR OF PUBLIC MANAGEMENT QUALIFICATION AT THE DEPARTMENT OF GOVERNMENT MANAGEMENT, FACULTY OF MANAGEMENT SCIENCES, CENTRAL UNIVERSITY OF TECHNOLOGY, FREE STATE (CUT)

Dear Sir/Madam

I, Prof T. van Niekerk, as the main promoter and the Head of Department hereby confirms that Mrs MJA Tshilo, student number 215142616, is a registered postgraduate student busy with the Doctor of Public Management qualification at the Central University of Technology, Free State (CUT). Mrs MJA Tshilo has shown excellent progress to date and she is currently busy with the empirical chapter of her thesis. As part of the empirical chapter, Mrs MJA Tshilo has to conduct interviews and distribute a structured questionnaire to the respondents, as indicated in her research proposal that was approved by the Faculty of Management Sciences during 2015.



(PROFESSOR T VAN NIEKERK)

HOD: DEPARTMENT OF GOVERNMENT MANAGEMENT

Telephone number: (051) 5073337 or 3378 mobile: 0829683346

E Mail: edwardst@cut.ac.za

ANNEXURE C: LETTERS OF INVITATION TO PARTICIPATE IN RESEARCH

TO: ALL SUPPLIERS

Dear Sir/Madam

INVITATION TO PARTICIPATE IN PhD RESEARCH

I am Ms Mpho Tshilo working for the Free State Provincial Treasury, SCM Compliance. I am very interested in the development of Small Medium and Micro- Enterprises (SMME) suppliers and I am inviting you to take part in a research study aiming to find out how late payment has affected the businesses and living conditions of SMME suppliers doing business with municipalities in the Free State Province.

The information from this research will be used to find ways to help municipalities improve their municipal procurement management practices, which will assist in ensuring the prompt payment of SMME suppliers.

Please note that you are not forced to participate in this survey. However, I would appreciate your willingness to assist in this research project by participating in self-administered questionnaire. I commit that the findings of this research will remain private and confidential and will be used only for the stated academic purpose and no one will be able to trace your responses back to you as an individual.

The results from questionnaire and interviews are of the utmost importance as they will benefit the researcher to complete and submit her PhD thesis. The findings of the research will also assist municipalities in the Free State by offering recommendations to enhance municipal procurement management practices.

Queries concerning this study and consent to participate would be welcomed. Please do not hesitate to contact me at the number provided below. **I look forward to your response** and please allow me to express my sincerest gratitude in anticipation of your cooperation.

I hope to conduct Interviews from 01 June to 31 June 2017.

Thanking you in anticipation.

Yours faithfully

Ms Mpho Tshilo

Tel: 051 405 4781 (work); Cell: 072 141 6402; Email: Tshilo.Mpho@treasury.fs.gov.za

LETTER OF INVITATION TO PARTICIPATE IN RESEARCH

Ms Takatso Lebenya

Municipal Manager

Thabo Mofutsanyana District Municipality

WITSIESHOEK

Dear Ms Lebenya

INVITATION TO PARTICIPATE IN PhD RESEARCH

My name is Mpho Tshilo. I am working for the Free State Provincial Treasury, SCM Compliance. I am also a Doctoral student in Public Management at the Central University of Technology, Free State (CUT). I am conducting a research titled:

The Development of a Framework for the Management of Suppliers as part of Public Procurement Management and SCM Practices in District Municipalities of the Free State Province

You are invited to participate in a survey relating to the research topic stated above, and will take about 20-25 minutes of your time. Please note that you are not compelled to participate in this survey. However, I would appreciate your willingness to assist in this research project by participating in semi-structured interviews. I undertake that the findings of this research will remain private and confidential and will be used solely for the stated academic purpose. No one will be able to trace your responses back to you as an individual.

The results from interviews are of the utmost importance as they will benefit the researcher to complete and submit her PhD thesis. The findings of the research will also assist municipalities in the Free State by offering recommendations to enhance municipal procurement management practices.

Queries concerning this study and consent to participate would be welcomed. Please do not hesitate to contact me at the number provided below. I look forward to your response and please allow me to express my sincerest gratitude in anticipation of your cooperation.

I hope to conduct interviews from 01 June to 31 June 2017.

Thanking you in anticipation.

Yours faithfully

Ms Mpho Tshilo

Tel: 051 405 4781 (work); Cell: 072 141 6402; Email: Tshilo.Mpho@treasury.fs.gov.za

LETTER OF INVITATION TO PARTICIPATE IN RESEARCH

Mr Hopolang Ishamael Lebusa
Chief Financial Officer
Thabo Mofutsanyana District Municipality
WITSIESHOEK

Dear Mr Lebusa

INVITATION TO PARTICIPATE IN PhD RESEARCH

My name is Mpho Tshilo. I am working for the Free State Provincial Treasury, SCM Compliance. I am also a Doctoral student in Public Management at the Central University of Technology, Free State (CUT). I am conducting a research titled:

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I hope to conduct interviews from 01 June to 31 June 2017.

Thanking you in anticipation.

Yours faithfully

Ms Mpho Tshilo

Tel: 051 405 4781 (work); Cell: 072 141 6402; Email: Tshilo.Mpho@treasury.fs.gov.za

LETTER OF INVITATION TO PARTICIPATE IN RESEARCH

Mr S.M. Thamaha

Head of SCM

Thabo Mofutsanyana District Municipality

WITSIESHOEK

Dear Mr Thamaha

INVITATION TO PARTICIPATE IN PhD RESEARCH

My name is Mpho Tshilo. I am working for the Free State Provincial Treasury, SCM Compliance. I am also a Doctoral student in Public Management the Central University of Technology, Free State (CUT). I am conducting a research titled:

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Yours faithfully

Ms Mpho Tshilo

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ANNEXURE D

ANNEXURE E