

TOWARDS PROCUREMENT FOR DEVELOPMENT:  
A COMMENT ON *PARI – POSITIONS ON STATE REFORM IN SOUTH AFRICA*

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PARI's series of position papers on the reform of the South African state is a hugely welcome intervention, at what the author's correctly point out is a critical juncture, in which the chance for a renewal agenda is heightened but fleeting.

One exemplary feature of the PARI position papers is that they begin from a firm recognition of the fact that public sector reform cannot afford to become an exercise in simply downsizing or restraining the state or subjecting it to market discipline. Such an approach would be self-defeating in the long run, since it would erode the capacities needed to forge a new developmental path for the country – thus reinforcing the present feedback between slow, highly uneven growth and the burgeoning of social pressures which lead ultimately to corruption and patrimonialism. One-sided solutions won't help South Africa out of this trap – what's needed are bold attempts to *simultaneously* rebuild an efficient, mission-oriented public service and to put it to work immediately in tackling inequality and a stagnating economy.

It's thus extremely welcome that the position paper on procurement resists the urge to envisage procurement reform solely in terms of an anti-corruption agenda. The detailed suggestions for improving the transparency, accountability and oversight of state tendering are seen as enhancing rather foreclosing on the capacity of procurement to advance social and developmental objectives. This brief commentary continues in the same spirit by thinking through, in broad strokes, some of the potentials and challenges in the use of public procurement (PP) for economic transformation.

It is now well established in the literature that PP can be a powerful instrument of industrial policy (IP), which refers broadly to the set of tools used by states to encourage accumulation in manufacturing and related sectors. In the context of widespread deindustrialization, IP is experiencing a renaissance around the world, invoked by policymakers and academics from diverse backgrounds, although often in the form of broad-gauge instruments intended to support existing industry as a whole (so-called horizontal IP).

For a different tradition of development thought, which has never doubted its saliency, (vertical) IP is at the heart of deliberate state efforts to shift and upgrade the composition of economic activity and unlock new competencies. This tradition emphasizes a few key facts about development: firstly, that it is not equally simply to growth, but rests on building capacities in particular types of activities which have the potential for high rates of learning and productivity improvement; and secondly that breaking into these activities for late developing economies, which are far from the technological frontier of the early movers, is impossible without concerted support from the state.

The facility of PP for a development strategy that rests on these premises is straightforward. The use of state budgets, which are typically huge even in developing countries, can provide a vital source of stable (non-market) demand for emerging industries, allowing some to cross critical scale thresholds and acting as *de facto* form of

protection (hence the frequent hostility towards PP in global trade agreements). In addition, targeted PP, or so-called PP for Innovation (PPfI), can be directed towards supporting or incentivizing the development of new technologies or product lines in alignment with forecasted, cross-sectoral industrialization plans. PPfI has often been carried out by military and security apparatuses which tend to be purchasers of technologically intensive manufacturing goods, but a more socially-just developmental model may cede that role to agencies devoted to planning for climate change adaptation and mitigation – also high innovation sectors.

The obvious but nonetheless salient point to draw from the above is that while almost all PP will bolster private accumulation of some kind, not all PP is developmental. Procurement which enhances innovation-led growth in high productivity industries is of a completely different character to procurement which results effectively from the outsourcing of traditionally state-run services to firms which often remain entirely dependent on public contracts. PARI's central focus on procurement in these position papers is based on what it has defined as the emergence of a "contract state" based on ballooning procurement budgets. While I've yet to see any detailed disaggregation of this expenditure, given the overall absence of IP in SA, we can be assured that the vast majority of PP falls into the second category.

Whilst less suited to development as such, this kind of PP can and indeed has been used to further other socio-economic goals. In SA, PP has been central to the growth of black business, both directly through tenders and indirectly through the inclusion of supply chain criteria in BEE scorecards. Given however that this form of PP has limited if any developmental payoff, there is a greater need to weigh its benefits against the potential costs to equity and capacity in service delivery that may be brought about by creeping privatization. Here I may raise one criticism of the PARI position paper: its unwillingness to seriously interrogate the big picture of "contract state" emergence – which seems simply to be accepted as a *fait accompli* of global trends. Attention is thus overwhelmingly devoted to improving the efficiency and efficacy of contracting, rather than questioning its long term effects or considering entirely different alternatives.

The distinction between developmental and non-developmental PP is all the more important to bear in mind in relation to PARI's broad vision described above – of unlocking virtuous circles between the state and its social environment. While both forms of PP are prone or possibly even fated to produce rent-seeking, the constituencies they foster are likely to have different overall preferences in relation to state independence. Large, competitive firms operating in private markets may seek favors from the state at every opportunity, but are more likely to react with hostility to forces which expose the state to unbridled predation and weaken its ability to enforce contracts and maintain stability. On the other hand, it is a common, if not entirely proved assumption, that smaller, state-dependent business created in part through the existing PP framework have been central to the political coalitions driving so-called 'state capture' in South Africa.

There is thus an urgent need to shift the composition of overall PP expenditure towards PPfI, whilst being more stringent not only on the conditions but the extent of non-developmental PP. This is obviously not something that can be mandated through procurement policy alone – it requires the creation of state agencies capable of envisaging and undertaking long-term industrial planning. If the Malaysian example is anything to go by, a procurement framework embedded within a program of state-led structural

transformation will be better not only for achieving long term development but also the broad-based de-racialization of the economy.