

REFORMING PUBLIC ADMINISTRATION IN SOUTH AFRICA: A PATH TO PROFESSIONALISATION

THIS DOCUMENT IS AN EXTRACT OF ONE CHAPTER OF THE BOOK.

CHAPTER 3

RYAN BRUNETTE & JONATHAN KLAAREN

REFORMING THE PUBLIC PROCUREMENT SYSTEM IN SOUTH AFRICA

Suggested citation:

Brunette, R & Klaaren, J. 'Reforming the Public Procurement System in South Africa.' In J Klaaren (Ed) *Reforming Public Administration in South Africa: A Path to Professionalisation*. Cape Town: Siber Ink, 2021.

Jonathan Klaaren (ed)
Florencia Belvedere • Ryan Brunette



Reforming Public Administration in South Africa

A PATH TO PROFESSIONALISATION

Editor

JONATHAN KLAAREN

Professor of Law & Society, University of the Witwatersrand

2021



Siber Ink

First published 2021
by



Siber Ink

Siber Ink CC
PO Box 30702
Tokai 7966
Cape Town
SOUTH AFRICA

www.siberink.co.za © Siber Ink CC

ISBN 978-1-928309-39-0 (PDF ebook)
ISBN 978-1-928309-38-3 (epub)

This work is licensed under the Creative Commons
Attribution-NonCommercial-NoDerivatives 4.0
International License. To view a copy of this license,
visit <http://creativecommons.org/licenses/by-nc-nd/4.0/>
or send a letter to Creative Commons, PO Box 1866,
Mountain View, CA 94042, USA.



Typesetting by G J du Toit

Contents

The Chapters greyed out below appear in the full book, and not in this extract containing only chapter 3.

About PARI.	vii
About the Authors	viii
Preface	ix
Introduction: Conceiving (of) State Reform in South Africa.	xi
Chapter 1 Appointment and Removal in the Public Service and in Municipalities	1
RYAN BRUNETTE	
Chapter 2 Appointments and Removals in Key Criminal Justice System Institutions.	31
FLORENCIA BELVEDERE	
Chapter 3 Reforming the Public Procurement System in South Africa	60
RYAN BRUNETTE & JONATHAN KLAAREN	

About PARI

Established in 2010, the Public Affairs Research Institute (PARI) is a Johannesburg-based organisation, affiliated to the University of the Witwatersrand, that works to support the development of a more effective and accountable state—one that better supports a more economically and socially just society. Much of PARI's work studies the effectiveness of state institutions in service delivery and infrastructure. Also running a postgraduate teaching programme, the organisation generates high-quality academic research that aims to uncover and understand the structural dynamics shaping state practice and to develop strategies for reform. PARI works with change agents in the public service and civil society to improve the implementation of policies in relevant fields as well as to advocate for changes to relevant legislation, government systems, or ways of thinking about or framing a governance challenge. Its work inside departments and agencies across government and collaborations with other organisations in the country and the global South provide unique insights into state performance and state-society relations.

About the Authors

Florenca Belvedere is the head of the State Reform Programme at PARI and has a PhD in political science. She is an admitted attorney and was a public servant in the South African government for several years.

Ryan Brunette is a Research Associate at PARI. A graduate of the University of the Witwatersrand, he is studying for a PhD in Political Science at the Graduate School and University Center of the City University of New York.

Jonathan Klaaren is a Professor at the University of the Witwatersrand, serving at the Law School and the Wits Institute for Social and Economic Research (WiSER). His current research interests include the African legal profession, regulation and competition policy, public procurement, and migration.

Preface

We wish briefly to set out the history of this publication and to acknowledge the personnel at PARI who contributed to this collective effort.

This book had its origins in the research, writing, dissemination, and advocacy efforts surrounding three policy position papers produced by PARI. These three papers treated distinct parts of the South African public administration: high-level appointments within the criminal justice sector¹, public procurement², and the system of recruitment and appointment of public servants³. Versions of these papers were presented and discussed at several advocacy forums including a conference jointly hosted by PARI and the Ahmed Kathrada Foundation in 2019, workshops with civil society in the same year, and various public ‘webinars’ over the last 18 months.

The position papers were informed by ongoing conversations with knowledgeable and supportive political office-bearers and public managers. The proposals they articulated constitute a collective product of partnership between civil society organisations, research institutes, and individuals committed to a politics oriented around the achievement of a free and equal society devoid of racism, sexism, and other forms of oppression and marginalisation, as set out in our Constitution’s founding provisions. More specifically, the proposals emanate from and demonstrate PARI’s commitment to seeing a reformed state administration support the achievement of a more just and equitable society along such lines. Our inclusive process recognised the importance to this politics of a democratic, lawful and developmental public administration. PARI is dedicated to supporting the construction of such an administration through activism around specific reforms with widely evidenced efficacy.

These papers went through a process of several stages of collaborative review during their initial production. This process included a series of workshops where some external advocates and academics offered written comments and others discussed earlier drafts. PARI wishes to thank here the persons who participated in this process, which yielded considerable constructive criticism: Geo Quinot, David Bruce, David Lewis, Lukas Muntingh, Lawson Naidoo, Gareth Newham, Anton van Dalsen and Lee-Anne Germanos, Robert Cameron, Kris Dobie, Brian Levy, Vinothan Naidoo, Ben Turok, Michael Nassen Smith, Niall Reddy, Glen Robins, Lisa Seftel, Ron

¹ Florencia Belvedere, ‘Appointments and Removals in Key Criminal Justice System Institutions’ (Public Affairs Research Institute, April 2020), <https://pari.org.za/position-papers-criminal-justice-system/>.

² Ryan Brunette and Jonathan Klaaren, ‘Reforming the Public Procurement System in South Africa’ (Public Affairs Research Institute, May 2020), <https://47zhcvti0ul2ftip9rxo9fj9-wpengine.netdna-ssl.com/wp-content/uploads/2020/05/PROC05-05-20.pdf>.

³ Ryan Brunette, ‘Position Paper on Appointment and Removal in the Public Service and Municipalities’ (Public Affairs Research Institute, April 2020), <https://47zhcvti0ul2ftip9rxo9fj9-wpengine.netdna-ssl.com/wp-content/uploads/2020/05/REC05-05-20.pdf>.

Watermeyer, Johan Kruger, John Jeffery, Trish Hanekom, and Anthony Butler. In addition, representatives from at least the following organisations attended at least one of the events at which these papers were discussed: the Ahmed Kathrada Foundation, ANC Stalwarts and Veterans Group, Auwal Socio-Economic Research Institute (ASRI), Black Sash, Centre for Complex Systems in Transition, Centre for Development and Enterprise, Corruption Watch, Council for the Advancement of the South African Constitution (CASAC), Dullah Omar Institute (DOI), Freedom House, Helen Suzman Foundation (HSF), Institute for Security Studies (ISS), Johannesburg Against Injustice (JAI), Nelson Mandela Foundation, Organisation Outdoing Tax Abuse (OUTA), Public Service Accountability Monitor (PSAM), SANGOCO, Strategic Dialogue Group (SDG), Studies in Poverty and Inequality Institute (SPII), and #UniteBehind.

Each of the papers underwent a further stage of blind peer-review from two legal academics in the field of administrative law and revisions in response to those reviews. It is the individual authors of each of the three chapters and the editor that take final academic and professional responsibility for the content and any errors that may exist.

A number of persons at PARI contributed specifically and significantly to this effort. Vishanthi Arumugam, holder of the communications portfolio, got this publication started—collating and reformatting most of the original files. Sarah Meny-Gibert, PARI's research coordinator, contributed to the writing throughout (in particular to the introduction) and copy-edited much of the final product. Florencia Belvedere contributed not only as the author of one of the substantive chapters but also as head of PARI's State Reform Programme, where this project was housed. Jonathan performed the duties of a book editor, overseeing the peer review process and the compiling, writing, and final editing of this book. Mbongiseni supported the project enthusiastically from its inception.

Finally, it is worth noting here that this book is published in a digital form and is available through open access. We thank our publisher, Simon Sephton, for exploring this electronic path with us. With this publication, PARI is continuing to experiment with the best ways to disseminate ideas and stimulate debate around themes of reform and reinvention for the South African state. In a number of state sectors such as judicial reform, recent trends in the literature have demonstrated that policy-oriented research can play an important role.⁴ We believe state transformation is a process that is fundamentally based in practices of democratic citizenship and is something in which all citizens may usefully contribute. Noting that the digitalization of academic production and scholarly publication raises many and complex issues (worthy of a book in its own right?), we wholeheartedly support the aim of access to knowledge which lies behind open access publishing.

MBONGISENI BUTHELEZI *and* JONATHAN KLAAREN
Johannesburg, September 2021

⁴ Hugh Corder and Justice Mavedzenge, eds., *Pursuing Good Governance: Administrative Justice in Common-Law Africa* (Cape Town, South Africa: Siber Ink, 2019).

Introduction

Conceiving (of) State Reform in South Africa

This short book analyses three distinct and key features of the state: the system of appointment and removal in the public service and municipalities, high-level appointments and removals within the criminal justice sector, and public procurement. A state's politics and its capacities are constituted in important ways by how it fills its public administrative offices (including its prosecution service) and purchases its necessities. The book, considering outcomes in South Africa, advocates for specific reforms in each area. It argues that the timely consideration and adoption of reforms along these lines is an urgent task. With that in mind, the book has been written chiefly for two audiences: both for activists keen to build a state which can play its role in advancing the progressive transformation of South African society, and for scholars who are interested in understanding the character and possibilities of the evolving South African public administration.

In 2019, President Cyril Ramaphosa acknowledged that 'our greatest efforts to end poverty, unemployment and inequality will achieve little unless we tackle state capture and corruption in all its manifestations and in all areas of public life'.¹ He promised, on behalf of government, to work with South African society to fight these threats and strengthen the state's ability to promote its democratic mandate and address the needs of its people. As this book is published more than two years later, it is clear that efforts to address the system of patronage in the public sector have been limited. Further, the COVID crisis has highlighted just how pressing the need for a state reform agenda (and its execution) is. It remains urgent to reverse the degradation of state institutions and to rearticulate and reaffirm, in a concrete form, the values and aspirations underlying the role of the public service in our as-yet-untransformed society. This book endeavours to contribute to the development of an overarching strategy for state reform by proposing concrete ways to promote institutional integrity, democratic control and administrative effectiveness.

Even before the Covid-19 pandemic, when Ramaphosa made his speech, the South African state was manifestly in crisis. The high ideals of the anti-apartheid movement had decomposed in corruption and the politics of patronage. The fiscus, the public administration and critical infrastructure were deteriorating. The economy, partly in consequence, had stalled. These well-attested propositions received greater recognition when the pandemic struck. Government's early decision to lockdown, decisive and informed by science, at first won near-universal

¹ <https://www.gov.za/speeches/President-cyril-ramaphosa-2019-state-nation-address-7-feb-2019-0000>.

goodwill as South Africans rallied against a common threat. Within weeks, however, this rare amity evaporated. The police and army were implicated in gratuitous acts of violence against ordinary people. A series of poorly justified and sometimes imprudent lockdown regulations accumulated. Corruption plagued the emergency procurement of personal protective equipment and other items needed to save lives. The lockdown lingered, it was extended twice, as the state failed to establish the test, trace and quarantine capacities needed to safely lift it. Economic and social support to businesses, workers, and the unemployed, was limited by fiscal concerns and rolled out late and haphazardly. Criticism, often warranted, sometimes opportunistic, exploded from all quarters.

The pandemic had caught South Africa unprepared and incapacitated. The country, already overwhelmed by the routine problems of normal times, now had to respond nimbly to a great and unforeseen public health emergency. It had to communicate clearly and elaborately, to quickly construct largescale and complex administrative operations, and coordinate tens of millions of people into new patterns of behaviour. In these tasks, it mostly fell despairingly short. The pandemic may be a prelude to what is shaping up globally to be an age of catastrophe—defined first and foremost by climate change—and it showed what South Africa might look like if it doesn't move to address its state crisis. By the end of 2020 the economy had contracted by 7 percent. The expanded unemployment rate had breached 40 percent. In surveys, 18 percent of households reported hunger.²

The book charts a path between and beyond two positions which have long had an out-sized place in South Africa's discussion about its contemporary governmental and public administrative problems. First, there is what we could call the moralist position. It stresses the need for ethical leaders. In their absence, it urges accountability, mobilising the polity behind disciplinary action, prosecutions and, for some, electoral turnover. The authors of this book do not deny the importance of ethics and accountability, but no country has ever satisfactorily resolved an episode of corruption and patronage politics of contemporary South African proportions through such efforts alone. There are simply too many people to prosecute, and too many others ready to take their place in the patronage system.

The second position can be labelled economistic, because it reduces the issues of corruption and patronage to economic causes. Proponents of this position argue that these issues are a consequence of the prevalence of poverty in South African society and its extreme inequality. As solutions, they promote economic development and redistribution, by whatever methods they might prefer. The most cursory look at the world will show the importance of such considerations. The richer and more equal countries have a visibly lesser incidence of corruption, but the economistic position elides the extent to which corruption and patronage are themselves impediments to economic advance. In contemporary conditions of globally

² <https://cramsurvey.org/wp-content/uploads/2021/02/10.-Van-der-Berg-S.-Patel-L.-Bridgman-G.-2021-Hunger-in-South-Africa-during-2020-Results-from-Wave-3-of-NIDS-CRAM-1.pdf>

competitive capitalism, a professional and capable state is important for driving rapid development and associated redistribution.³

The chapters of this book accept the relevance of the factors addressed by moralism and economism. They emerge, however, from the view that official conduct, whether ethical or malfeasant, is powerfully framed, constrained and enabled by the structure of the institutions within which officials operate. They arise from a recognition that this structuration of the state has significant consequences in terms of economic outcomes. The chapters move with contemporary politics, by building on official policy statements which point in a serviceable direction. By building on these statements, the chapters also try to push government to move beyond them. They articulate a more encompassing and fundamental strategy for change. Moreover, although these chapters draw on policy and contain extensive analysis of law, they develop their arguments with an appreciation of their political-sociological context.

Chapter 1 is on reforming processes for appointment and removal in the public service and municipalities. In the South African system, politicians hold largely unchecked powers over these processes. Ryan Brunette, tracing the legal framework, shows how it allows politicians to bring their political and personal connections into public administrative office, which downplays technical competence and enables circumvention of the procedural controls which protect public administrative functions from corruption. Given the country's levels of economic deprivation and inequality, politicians can and often do use the opportunities entailed to accumulate wealth and to generate the patronage resources needed to build support and to evade democratic accountability. Destabilisation and paralysis are often further effects—as energy and resources are directed away from government programmes and policy formulation/implementation and towards private interests and factional battles. Countries which have successfully overcome expansive, systemic episodes of corruption and patronage have reformed personnel systems to close down those opportunities, and South Africa should emulate them. In ways that preserve democratic control, Brunette argues that political powers must be checked and balanced by dividing appointment and removal processes into stages and giving the Public Service Commission and other independent bodies power over some of these.

Chapter 1 sets the stage for Chapter 2, which deals with appointment and removal processes in key criminal justice institutions. The legal framework that governs appointment and removal in these organs of state, which have investigative and prosecutorial functions, has blurred the lines between politics and regulation, undermining the independence that these institutions need to address corruption and other forms of malfeasance without fear or favour. Florencia Belvedere

³ For example: Evans, P., & Rauch, J. E. (1999). 'Bureaucracy and growth: A cross-national analysis of the effects of Weberian state structures on economic growth'. *American Sociological Review*, 748–765; Kohli, A. (2004). *State-Directed Development: Political Power and Industrialization in the Global Periphery*. Cambridge, UK: Cambridge University Press.

discusses and justifies a series of reforms to the appointment and removal processes for senior leaders in the National Prosecuting Authority (NPA), the South African Police Service (SAPS), the Directorate for Priority Crime Investigation (DPCI), and the Independent Police Investigative Directorate (IPID) which aim to improve the transparency and rigour of these processes and to better guarantee their independence from partisan politics, while ensuring that the President as head of state, and the executive, retain their Constitutional powers to appoint. President Ramaphosa's appointment of Shamila Batohi as head of the National Prosecuting Authority (NPA) is one example of the positive effects of appropriate selection processes and credible appointments. Chapter 2 considers how to diffuse similar processes through the NPA and other criminal justice institutions.

Finally, chapter 3 deals with reform of the public procurement system. Ryan Brunette and Jonathan Klaaren give a sense of the scale and significance of public procurement in South Africa, the historical forces which have shaped it, and the problems which have emerged in the course of this history. They make the case for a process of reform which moves through the recently published draft Public Procurement Bill and which optimises imperatives—often viewed as competing—of integrity, operational efficiency and the promotion of socio-economic goals such as industrial development and black economic empowerment. The reforms considered in chapters 1 and 2 would serve to insulate procurement processes from inappropriate political and other forms of interference, a central cause of corruption. Beyond this, Brunette and Klaaren propose shifting the burden of public procurement integrity from restrictive rules, which constrain legitimate actors and are rarely enforced against the corrupt, to stronger methods of enforcement. They offer a lighter regulatory framework to enable good purchasing practice and advance black economic empowerment, and then they complement this with a series of innovative mechanisms for frustrating corruption, including a system of financial rewards for whistleblowers.

The reforms articulated and argued for in these three key features of the South African state are overlapping and mutually reinforcing. The authors readily acknowledge that other sectors and dimensions of the state also require concerted attention. The state-owned enterprises and other statutorily-defined public entities are an obvious omission. The authors also do not address the specific problems of particular sectors, like health, education and water. The basic principles and models developed in these chapters are relevant to this broader context, but will need to be tailored where distinctive legal frameworks and specific political and organisational contingencies require it. In any event, the ideas and arguments made in these pages are only a start. We hope to expand from this early foray to cover other areas in future, under an expansive state reform project.

Indeed, the focus of the book can be understood as necessarily preparatory in the sense of providing a vision for a better recalibration of the relationship between politics and administration in units of the South African state. Taking this forward will require work in both politics and administration. As recalibrated here, we

believe this relationship is foundational for a range of interventions to reduce corruption and improve public administration.

Additionally, getting this relationship right underpins the model of economic development seen perhaps most clearly in chapters 1 and 3 (as well as the culture of the rule of law directly supported by the criminal justice sector institutions treated in chapter 2). The work presented here on the public procurement system sees the relationship between politics and administration as playing an important role in ensuring procurement activity plays an active and contributory role in economic development, including local economic development. The work presented here on the potential for reform of state recruitment practices is likewise based upon a vision of the state as embedded within a society of material as well as ideal interests. At least in present-day South Africa, the fortunes of the state administration and the fate of the economy are mutually implicated. The state reform project is an iterative process between two spheres most often incorrectly seen as completely separate: the public and the private. In this sense, the book contributes to the articulation of a distinct developmental path for South African society.

Reforming the Public Procurement System in South Africa

RYAN BRUNETTE • JONATHAN KLAAREN

INTRODUCTION

Public procurement is significant in terms of the scope of the state functions it operationalises and the scale of its contribution to public expenditure. The South African government spends almost a trillion rand a year through the public procurement system, around 1.3 times what it pays in employee compensation and 19.5 per cent of gross domestic product (GDP). Public procurement has, as such, powerful effects on the tone and substance of South African politics and in the structure and distributions of its economy.

There is a general consensus, widely evidenced, that South Africa's public procurement system is in crisis. It exhibits high levels of non-compliance and corruption, too often incurs fruitless and wasteful expenditure, and fails to provide the right goods and services, at the right price, and at the right place and time.

The points made above have not gone unnoticed. In his 2012 budget speech, then Minister of Finance, Pravin Gordhan, announced the formation in the National Treasury of an Office of the Chief Procurement Officer (O-CPO).¹ In his 2013 speech he declared that this vehicle would initiate a wider push to reform the procurement system, following up with an unprecedented acknowledgement of the political challenges involved:

Let me be frank. This is a difficult task with too many points of resistance ... While our ablest civil servants have had great difficulty in optimising procurement, it has yielded rich pickings for those who seek to exploit it. There are also too many people who have a stake in keeping the system the way it is. Our solutions, hitherto, have not matched the size and complexity of the challenge ... This is going to take a special effort from all of us in government, assisted by people in business and broader society.²

By 2019 important advances had been made: in capacitating the O-CPO, in reviewing existing high-value and long-term contracts for the recovery of monies fraudulently obtained, in renegotiating the terms of contracts, and in intelligently optimising supplier registration, tendering and transversal contracting through

¹ 2012 Budget Speech By Minister of Finance Pravin Gordhan [Web log post]. (2012, February 22). Accessed 10 October 2019 at <https://www.gov.za/2012-budget-speech-minister-finance-pravin-gordhan>.

² 2012 Budget Speech By Minister of Finance Pravin Gordhan [Web log post]. (2013, February 27). Accessed 10 October 2019 at <http://www.treasury.gov.za/documents/national%20budget/2013/speech/speech.pdf>.

the gCommerce platform, the central supplier database (CSD), and the e-tender portal. These advances, however, have not been sufficient. The O-CPO and its supporters have operated under the constraint of periodic and intense political pressure. Progress has been slow.

The draft Public Procurement Bill, which was released for public comment in February 2020 for a five-month period, outlines potentially important changes in constructing a more coherent regulatory framework for South Africa's public procurement regime, and clarifying authority in a proposed Public Procurement Regulator. While we welcome these proposals, the problems cannot solely be solved by legal changes. The issues covered in this chapter are broader in scope than the reforms contained in the Bill. We include consideration of a range of operational challenges, supporting the development of a public procurement system that is better designed and capacitated to play its constitutionally intended role in supporting economic and social development.

The chapter is aligned with the call to mobilise people in broader society behind public procurement reform. Although reform-minded civil society, unionists and business people cannot feasibly co-direct all the technicalities of public procurement reform, they can and must develop a strategy for applying pressure to push such a reform process in the right general direction. Reform-minded politicians and public administrators, in contemporary conditions, need a bulwark in broader society; they need to be pushed beyond what they believe possible.

1. PUBLIC PROCUREMENT IN SOUTH AFRICA

1.1 The evolution of the procurement system

South Africa under apartheid operated a classically centralised procurement regime, with national functions vested in a State Tender Board that delegated to departments and other entities, together with alternative arrangements for security-related purchasing and state-owned enterprises. Provincial and local governments, as well as the plethora of segregated administrations, operated similar systems.

Tender boards were usually composed of political representatives, state officials, and corporatised interests such as business, industry, professional and other associations.

These interests engaged directly in the allocation of tenders; the idea was that they would balance one another out so that distribution of tenders would be impartial. The boards favoured open, competitive tenders but operated loosely and delegated widely; departures from the lowest-priced rule were common. The procurement system veered strongly towards larger, better established businesses, appointed on long-term contracts. The above characteristics were institutionalised in item specifications, and in norms, standards, rules and procedures. Public procurement was exclusively for white businesses; access for black business expanded

from the 1960s in segregated administrations, and in some historically white administrations in the years immediately preceding 1994.³

The system was widely and justly condemned for its racial bias. Generally, and rightly so, the central tender boards were seen as a bottleneck in service delivery, and the specific needs of user departments were often poorly matched.

Public procurement reform was given priority on the agenda of post-apartheid government. The Department of Public Works and the National Treasury led the process—supported by a jointly established Procurement Forum—and by 1997 had produced the Green Paper on Public Sector Procurement Reform. The paper advocated and mapped out the process for breaking up the tender boards. Under the Public Finance Management Act and the Municipal Finance Management Act public procurement managerial powers were devolved to the accounting officers and authorities of individual departments and other organs of state. The paper also argued for simplifying procurement procedures and documentation, reducing or eliminating upfront costs such as performance guarantees and the price of bid packs, and unbundling large contracts. These widely implemented reforms were intended to facilitate the participation of smaller, emerging suppliers.

Preferential procurement, written into the 1996 Constitution as s 217(2), would also be mobilised to address the inequalities generated by colonialism and apartheid. The Preferential Procurement Policy Framework Act (PPPFA) of 2000 formalised this in a rigid 80/20, 90/10 price and preference points system.⁴ The PPPFA was aligned with broad-based black economic empowerment (B-BBEE) legislation and was to become a keystone of its architecture.

The Green Paper also emphasised the need for a more sophisticated, regulatory approach. It argued that a National Procurement Compliance Office should be established to steer the process of reform and the ongoing evolution of the procurement system, using robust powers and functions of standard-setting, monitoring, and enforcement.⁵ The office was, however, never created and the Green Paper left its institutional location undecided. Instead, dedicated regulatory authority over public procurement was demoted to National Treasury's residual, multi-purpose Specialist Functions division. Regulatory powers were also dispersed across a number of National Treasury divisions and beyond, into entities like the Construction Industry Development Board under the Department of Public Works, which was made responsible for regulating construction procurement.

³ Brunette, R., Klaaren, J., & Nqaba, P. (2019). Reform in the contract state: Embedded directions in public procurement regulation in South Africa. *Development Southern Africa*, 36(4), 537–554. See <https://pdfs.semanticscholar.org/86b5/f274722ec8afeb18d389a3725630504fcfce.pdf>.

⁴ 80/20 preference point system for acquisition of goods or services for Rand value equal to or above R30 000 and up to R50 million; 90/10 preference point system for acquisition of goods or services with Rand value above R50 million.

⁵ Notice 691 of 1997: Green Paper on Public Sector Procurement Reform in South Africa. [Web log post]. (1997, April). Accessed on 10 October 2019 at https://www.gov.za/sites/default/files/gcis_document/201409/17928gen6910.pdf.

In 2013 the creation of the O-CPO began to elevate and integrate public procurement regulatory powers and functions which until then had been submerged and disaggregated. The major reform effort announced in the budget speech of that year was a continuation of a reform process begun almost two decades earlier.⁶

1.2 The importance and scale of public procurement

Since the 1980s, states across the globe have made fundamental changes to the ways in which they administer their public functions. The shift from direct provision of services by the state's in-house personnel toward indirect provision through outsourcing—contracting of private providers—is a notable feature. South Africa has been no exception to this trend.⁷

Public servants report a massive expansion of the scope of public functions that are now contracted out, which often extends into what are ordinarily considered core public functions. Policy design and analysis processes are often outsourced. It is common for consultants to finalise basic documents, such as Integrated Development Plans and financial statements. Service providers have become central to the formulation and implementation of major administrative reform initiatives.

Officials in administrative and technical operations report that they spend more and more time on specification and management of contracts. Indeed the capacity to perform these functions has been hollowed out by excessive recourse to contracting. The latter excludes personnel from implementation work and thereby undermines learning and broader career prospects, which in turn makes state employment a less attractive prospect for young professionals. Even the contracting function itself is often contracted out to so-called, often infamous, 'purchasing management units'.

The scale of South African public procurement can also be measured quantitatively. In 2017, based on South African Reserve Bank statistics, 967 billion rand was channelled through public procurement. In the two preceding decades, public sector procurement expenditure rose in relation to total employee compensation, from a ratio of 0.97 to 1.3. In the same period, public procurement as a proportion of gross domestic product increased almost five percentage points, from 14.79 per cent to 19.5 per cent. In 2017 almost a fifth of the South African economy passed through public contracts.⁸

⁶ Brunette, R., Klaaren, J., & Nqaba, P. (2019). Reform in the contract state: Embedded directions in public procurement regulation in South Africa. *Development Southern Africa*, 36(4), 537–554. See <https://pdfs.semanticscholar.org/86b5/f274722ec8afeb18d389a3725630504fcfce.pdf>.

⁷ Brunette, R., Chipkin, I., Tshimomola, G., & Meny-Gibert, S. (2014). *The contract state: outsourcing and decentralisation in contemporary South Africa*. Johannesburg: Public Affairs Research Institute. See <http://47zhcvti0ul2ftip9rxo9fj9.wpengine.netdna-cdn.com/wp-content/uploads/2017/05/PARI-The-Contract-State-01082014-1.pdf>.

⁸ Brunette, R., Klaaren, J., & Nqaba, P. (2019). Reform in the contract state: Embedded directions in public procurement regulation in South Africa. *Development Southern Africa*, 36(4), 537–554. See <https://pdfs.semanticscholar.org/86b5/f274722ec8afeb18d389a3725630504fcfce.pdf>.

The significance to South Africa of the public procurement system goes beyond its broad scope and huge size. Not only is public procurement an increasingly important feature of public administration, but it is also an increasingly important factor in politics. Political competition for public office is often about access to public procurement opportunities. Preferential procurement operates in accordance with a company's B-BBEE score, which includes the extent to which companies themselves contract to suppliers with high scores. Public procurement, therefore, cascades across the South African economy, and acts as a massive lever for demographic and structural transformation.⁹ A second important extension of public procurement into economic policy occurs by way of the Department of Trade and Industry's local content programme, which specifies that a percentage of the price of designated public tenders must go to local producers.

2. WHY DOES PUBLIC PROCUREMENT NEED REFORM?

There is a lamentable paucity of large-scale and quantitative data—either published or within the public service itself—on the performance of South Africa's public procurement system. The O-CPO has alluded to some of the reasons for this. It notes that there has been a proliferation of information and communication infrastructures and procedures dealing with public procurement, as well as in related areas like public finance, personnel, logistics, taxation, company registration and so on. The O-CPO argues that the failure to ensure uniformity and integration between these structures has resulted in problems with data quality, comprehensiveness and measurement that undermine comparability between organs of state and across time.¹⁰

This has, however, not hindered, neither should it be allowed to hinder, the development of a thoroughgoing reform effort. Certainly, more precise and comprehensive evidence can aid reform; its systematic and continuous development ought to be an objective of reform. Information, however, has costs in terms of time and money. Knowledge is never complete and there is an irreducible element of uncertainty in all reform decisions. Calls for more evidence, therefore, can amount to a counsel of perfection against pragmatism—a recipe for conservatism instead of progress.

The extent and variety of the available evidence—from auditor-general reports, from existing and, too often, confidential government studies and investigations, from the public statements of governmental actors, from wide-ranging academic interviews and news media exposés—is such as to render public procurement reform a matter of urgency. A general consensus has thus emerged that public procurement has descended into a veritable crisis of non-compliance, corruption and

⁹ Bolton, P. (2006). 'Government procurement as a policy tool in South Africa'. *Journal of Public Procurement*, 6(3).

¹⁰ National Treasury (2015) Public Sector Supply Chain Management Review. Accessed on 10 October 2019 at <http://www.treasury.gov.za/publications/other/SCMR%20REPORT%202015.pdf>.

operational inability to secure the right goods and services, at the right price, in the right place, at the right time.

Public procurement is producing large, deleterious effects in the tone and substance of South African politics. While there is ample reason to believe that it has facilitated a significant redistribution of market share, managerial responsibility and employment in the economy, there are grounds for arguing that it has not done enough and that it too often fails to foster emerging suppliers that are sustainable and productive.

It can be argued, furthermore, again from the same sources of evidence, as well as from international experience, that positive changes to this system can be developed based on what we already know about the causal underpinnings of the crisis in public procurement. More than that, in all existing policy processes, evidence-gathering does not simply precede implementation; instead, they are interwoven, in the sense that implementation also precedes evidence.¹¹ Put another way, one sees how something ‘works’ by making incremental adjustments to it. The sorts of institutional adjustments advocated here are, like experiments in physics, ways of rearranging variables in order to illuminate causality. They are, again, ways of doing this are, by available evidence, more than likely to improve the public procurement system. They are designed to produce minimal expense and disruption.

3. WHAT CAUSED THE PROBLEMS?

The South African public procurement system is complex. It is operated by over a thousand organs of state that delegate to tens of thousands of divisions, field offices, schools, hospitals, and so on, with hundreds of thousands of registered suppliers entering into over two million transactions annually. The causes of its problems can, however, without great violence to this complexity, be reduced to the five that follow.

3.1 Political interference and lack of enforcement

Political interference in procurement operations is enabled by *a system of political control over appointments, promotions, and dismissals* across South Africa’s public administration.

Integrity in public procurement relies on a system of checks and balances. In South Africa, in order to achieve this integrity, responsibilities are divided across the stages of the procurement process between end-user departments, supply-chain-management units, bid-specification committees, bid-evaluation committees and bid-adjudication committees—not to mention a range of oversight authorities. The idea is that no single person or group is in a position to control outcomes across stages and direct contracts illicitly to themselves or to their

¹¹ See Simon, H.A. (1947) *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization*. New York, N.Y.: Macmillan Inc.; March J.G. and H.A. Simon (1958) *Organizations*. Hoboken, N.J.: John Wiley and Sons Inc.

connections. However, when small groups of politicians appoint their allies at the key points across this process, or otherwise bend public servants into submission by threats of curtailment of their career prospects and more, then the system of checks and balances ceases to function and the stages of the process are bridged by politics.

It is evident that this sort of politicisation of essentially administrative procurement operations is a pervasive feature of South Africa's procurement system. Politicisation is—with an influence that extends even into the criminal justice system—a fundamental cause of the lack of enforcement of compliance in the public procurement system and the consequent erosion of rules, procedures and discipline associated with corruption. The outcome is a loss of control that has become a major impediment to operational efficacy and to incentivising the formation of sustainable and high-level capacities in suppliers.

Because political interference and how to address it is the subject matter of the chapters on personnel practices in the public service and municipalities and in the criminal justice institutions, this chapter focuses on causes and solutions more specific to public procurement.

3.2 A lack of capacity

A second cause, in part interlinked with the first, is *a lack of capacity within regulatory authorities and procuring entities*, which amounts to a lack of sufficiently skilled public procurement personnel employed in sufficient numbers, within appropriately designed organisational structures. Public procurement has grown in scope and scale. Non-compliance, corruption and poor performance have attained epidemic proportions. Efforts to provide adequate staffing and training for public procurement regulation and operations are not commensurate with the enormity of the problem.

The O-CPO is charged with modernising and regulating a procurement system that churns out millions of contracts annually. In 2016, it had just 68 employees. The provincial treasuries operate supply chain management support units that complement the O-CPO in provinces and so-called 'delegated' municipalities, which include all except 17 of South Africa's largest municipalities. The 204 employees of these units brought the total in 2016 to 272, 27 per cent short of the 374 funded posts available.

A large number of these employees are directly involved in procurement processes like transversal contracting, and the establishment and maintenance of information and communication technology systems. Only 157 employees were involved in traditional regulatory functions: policy, norms and standards, monitoring, supporting and enforcing. Employees tend to have reasonable levels of educational attainment—most have postgraduate qualifications—but very few have extensive formal education in procurement or related fields such as supply-chain management and logistics. Few are members of public procurement professional bodies, specifically the Chartered Institute of Procurement and Supply (CIPS).

A number of other state employees, in divisions like the Office of the Accountant General in the National Treasury, and in other entities like the Auditor General and the Construction Industry Development Board, deal with public procurement regulation as part of more general responsibilities and focusing on particular aspects. There are strong arguments, however, based on subject matter specificity and specialisation, for dedicated public procurement regulation, which appears to have been woefully under-capacitated. The O-CPO reports, for instance, that in the ten months preceding February 2018, 2,704 state employees were doing business with the state, with R8 billion in payments. Furthermore, gaps in the data mean the actual figures for employees doing business with the state are understated.¹² In fact, regulations prohibiting state employees from doing business with the state only cover the tip of a vast and unquantifiable iceberg; the usual practice is to register family members, friends and other personal and political relations as directors of businesses to hide their provenance. Nevertheless, in 2016, only 55 personnel in the O-CPO and provincial treasuries dealt specifically with public procurement monitoring and compliance.

Public procurement practitioners involved in operations in broader organs of state display a similar profile of skills and professionalisation; they are relatively well-educated, but not widely in procurement and related fields. Most are not enrolled in public procurement professional bodies. Anecdotally, personnel numbers in relation to workload are more balanced here, but people involved in procurement processes often report in interviews that due diligence is attenuated by overburdening. Earlier and later stages in supply chain processes are often neglected in organisational design and staffing, which is to say that organs of state focus on purchasing and logistics, but do not adequately address demand management, procurement planning, contract management and performance evaluation. Professionals such as engineers and architects report that over-outsourcing reduces them to glorified contract managers, which contributes to deskilling, reduces the appeal of public sector careers, and hollows out public procurement capacity.

3.3 An excessively complicated, fragmented, and inconsistent legal regime

A third cause is the state of the legal regime for public procurement. The *regulatory framework for South Africa's public procurement laws is unnecessarily complex, fragmented and inconsistent*. The four most important statutes are the Public Finance Management Act, the Municipal Finance Management Act, the Preferential Procurement Policy Framework Act and the Construction Industry Development Board Act, but many of the significant and decisive rules are contained in diverse sector statutes. There are about 22 pieces of primary legislation that deal with

¹²National Treasury (2018) State Employees Conducting Business With Government. Accessed on 11 October 2019 at http://ocpo.treasury.gov.za/Resource_Centre/Publications/Report%20Employees%20of%20State%20doing%20business%20with%20government.pdf.

public procurement in a significant way. Regulatory authority, including to set legal rules, is dispersed across multiple national organs of state of which the most important are the National Treasury and the Construction Industry Development Board. An unsystematic, uncoordinated approach to legal elaboration, often the result of ad hoc responses to emerging problems of corruption and poor performance, has produced subordinate legislation that brings the total of distinct pieces of law to around 85. There is uncertainty as to the legal status of instruments at the lower end of this regulatory architecture. Although the binding nature of National Treasury practice notes and guidance documents is sometimes asserted, it is open to question.¹³

There is real difficulty, even for those experienced and expert in public procurement, in determining which laws are applicable to which intended procurements. Procurement practitioners, forced to cobble procedures together from this welter of regulation, often come out with incoherent processes that are open to court challenge. The complexity of the regulatory framework—combined with a general lack of consequence management—further disincentivises compliance, disrupts routine, and thus undermines control. Unnecessary differentiation of procurement procedure across different organs of state makes training of procurement practitioners—and therefore, capacitating functions—more costly.

3.4 A sub-optimal relationship between integrity and flexibility in the construction and application of rules

Not only does the regime exhibit an excessively complex, fragmented and inconsistent legislative framework, but it also fails to optimise trade-offs between, on the one hand, the procedural integrity necessary for fairness and to protect public funds, and on the other, the flexibility associated with the operational substance of purchasing. A fourth cause of problems in public procurement in South Africa is that the balance between procedural integrity and operational flexibility has not been optimal.

The provenance of this reality is easy to comprehend when viewed through the lens of South Africa's British administrative inheritance, in which public procurement was traditionally seen as a public financial competency. As noted above, in terms of the Constitution and subsequent legislation and practice, public procurement regulation was not only placed within the National Treasury, but was also effectively demoted from an agency—the State Tender Board, which was responsible to the Minister of Finance—to a series of subdivisions, known as the supply chain management (SCM) Office, within the Specialist Functions branch of National Treasury. When procurement operations were decentralised to procuring organs of state, these were guided toward placing their SCM units under

¹³ Quinot, G. (2014). An institutional legal structure for regulating public procurement in South Africa. Research report on the feasibility of specific legislation for National Treasury's newly established Office of the Chief Procurement Officer. <http://africanprocurementlaw.org/wp-content/uploads/2016/01/OCPO-Final-Report-APPRRU-Web-Secure.pdf>.

their chief financial officers. In this institutional architecture, procurement practitioners struggled to express themselves in public procurement policy processes. Public financial management, which was more concerned with integrity, subordinated public procurement to a public financial logic. In response to the growing crisis of non-compliance and corruption, National Treasury, the auditor-general, and related agents of regulation tightened interpretations of rules and procedures. In the process, there was a tendency for the operational substance of public procurement to be displaced.

Whereas the legal framework for public procurement provides for some flexibility in the choice of purchasing method, and for deviations, rigid compliance orientation has tended, increasingly, to constrain these possibilities and has fixed procurement processes in austere defined procedures and timeframes. The Preferential Procurement Policy Framework Act has often been interpreted to exclude functionality as an adjudication criterion and to confine purchasing decisions to price and preference. This makes it exceedingly difficult to secure the right goods and services where products are complex and highly differentiated. Justifications for deviations are often too strictly construed, especially given capacity constraints in drawing them up. To the extent that this tightening is the only mechanism available to public financial regulators for improving compliance, it is understandable.

Stricter rules, however, are a problematic substitute for enforcement. The inevitable reality is that rigidity has simply constrained those practitioners who already displayed integrity and intend to follow the rules and procedures. Politicians and public administrators who have bridged checks and balances with their political connections are still able to break the rules with impunity. In fact, they have often used these rules to pull power away from practitioners with more operational concerns, loosening the control of public service professionals and thereby freeing up space for illicit activities.

The imperatives of corruption and anti-corruption have eaten away at public procurement from both ends. The inefficiencies associated with corruption have been augmented by the inefficiencies associated with anti-corruption.¹⁴

3.5 A failure to match procurement procedure to developmental objectives

The fourth cause is related to the fifth and consists in a *mismatch between procurement operations and the development objectives for public procurement*. South Africa is committed to using public procurement to foster the formation and viability of firms that are owned, operated, and staffed at all levels by categories of previously disadvantaged people, along with those that assist in developing the capacities of disadvantaged people through skills development, supplier and enterprise

¹⁴ Brunette, R., Klaaren, J., & Nqaba, P. (2019). Reform in the contract state: Embedded directions in public procurement regulation in South Africa. *Development Southern Africa*, 36(4), 537–554. See <https://pdfs.semanticscholar.org/86b5/f274722ec8afeb18d389a3725630504fcfe.pdf>.

development, and broader socioeconomic development efforts. Moreover, the Department of Trade and Industry has developed the local content programme to leverage public procurement to the advantage of local industrial development.

Although government has not maintained a comprehensive time series of the extent to which these objects have been achieved, the data available suggests significant gains, even if these can be improved on. In 2018, the O-CPO reported that 66% of registered suppliers were B-BBEE Level 1, the highest level of contribution to black economic empowerment; 57% of suppliers were majority owned by black people; 22% were majority owned by black women; 23% were majority owned by youth; and 18% were majority owned by black people living in rural areas or townships.¹⁵ It is reasonable to assume that many suppliers were still in the process of updating their credentials on the Central Supplier Database (CSD), from which these figures were drawn. O-CPO statistics, admittedly incomplete, and drawn from government's payment system, indicate that in the last eight months of 2017, 36% of national and provincial procurement budgets went to Level 1 contributors, a further 17% went to Level 2 contributors, and that the total up to Level 4 contributors was 75%.¹⁶

Gaps in the data notwithstanding, it seems clear that although demographic parity in public contracting has not been achieved, it is equally apparent that great strides have been made toward it. The local content programme has fared less well. Government reported that between March 2015 and July 2017, R59.95 million was 'locked into the country' by this programme.¹⁷ So, although it can be assumed that a much larger proportion of the procurement budget was spent domestically, the local content programme itself failed to breach 5% of the total (R967 billion).

Beyond these absolute figures, serious questions exist about the viability of the firms being fostered by public procurement. When suppliers are politically or personally connected, political and personal considerations will tend to attenuate good procurement planning, specification, contracting and performance management. Deficits in administrative capacity can result in a similar looseness. Where procurement plans are unpublished and unreliable, where contracting is subject to the winds of political change and arbitrariness, where suppliers are not reliably compelled to perform at appropriate levels, then they are unlikely to build the productive capacities necessary for doing so. Middleman suppliers, which function simply by purchasing supplies and services in the market and then selling these to government at a mark-up, are common. Many suppliers that win contracts amount to little more than shelf-companies. Cutting corners in contracting and delivery is rife.

¹⁵ http://ocpo.treasury.gov.za/Resource_Centre/Publications/Report%20State%20of%20Gov%20Suppliers%20Report.pdf.

¹⁶ http://ocpo.treasury.gov.za/Resource_Centre/Publications/2018%20State%20of%20procurement%20spent.pdf.

¹⁷ https://www.gov.za/sites/default/files/gcis_document/201805/industrial-policy-action-plan.pdf.

The issue is, however, not only the failure to construct compliant and capacitated procurement functions; there is also a broader mismatch between the basics of the public procurement regulatory regime and its expressed developmental objectives.

At its centre the regulatory regime favours annual contracting through competitive processes. Contracts are small and competition is on the basis of price and preference, as defined in B-BBEE scores. In most activities a year is not enough time to foster the productive capacity of a supplier. Indeed, short time horizons encourage suppliers to seek quick profits by depressing production costs. The level of competition in South Africa is often so intense as to be destructive. It is not uncommon for hundreds of suppliers to vie for a single tender, often pushing prices below the costs of production in the hope that this can be made up later with contract deviations and the cutting of corners. Contracts are unbundled to smaller suppliers with little regard for attaining the economies of scale needed by competitive enterprises. The focus on price marginalises functionality and broader value for money. Preferences are rigidly fixed in statute and B-BBEE scoring applies to the whole firm instead of to its offer on a specific tender, which means that the system fails to fully explore opportunities for maximising black economic empowerment on a contract-by-contract basis, where associated costs can be minimised.

4. IDEAS FOR REFORM

The O-CPO and the National Treasury are involved in an ongoing reform drive, which should be supported and, where appropriate, built upon. The following reform ideas are responsive to the causes of problems in public procurement described above.

4.1 Data and transparency

The O-CPO has begun to publish reports on the state of the public procurement system. The gCommerce platform, central supplier database, and e-tender portal are welcome opportunities to generate rich, longitudinal data about this system. However, maximising these opportunities is hampered by the archaic, unintegrated, and deteriorating nature of government's broader information technology systems—most prominently: BAS (the accounting system), PERSAL (personnel), and LOGIS (logistics). The State Information Technology Agency (SITA), National Treasury, and the Department of Public Service and Administration have been working on modernising government's information technology with the Integrated Financial Management System (IFMS). However, progress has been slow and the procurement process for the new system has been mired in allegations of corruption. The O-CPO has also not indicated what data it is collecting and whether it plans to do so over a sufficiently long period to begin to discern trends in public procurement.

The new information technology that deals with public procurement also offers opportunities for publishing data and other information on the procurement system and, in fact, on procurement processes in real time. Currently, too much valuable information is not in the public domain. Much more can be done to promote transparency in South Africa's public procurement, along the lines of international initiatives such as the Open Contracting Partnership and the Construction Industry Transparency Initiative.

4.2 Insulating, capacitating and professionalising public procurement

Because politicians have the power to set overarching laws and policies and direct impartial implementation thereof, they should not be directly involved in decision-making in procurement, which is a quintessentially administrative function. Public procurement reformers must be centrally concerned, then, with insulating public procurement processes from political interference. What this entails is support for the proposals, set down in previous chapters of this book, on the reform of personnel practices.

Issues of capacitation and professionalisation are more closely entangled in specifically public procurement policy. In regard to capacitation, it seems clear that the O-CPO needs to build the internal capacity required to design and drive modernisation, and monitor, investigate and ensure compliance and anti-corruption. A number of the ideas offered here require further, although not prohibitive, financial outlays for staff. Generating data and monitoring trends and emerging issues in public procurement requires work hours, as does, for instance, maintaining transparency of the system. Although budget formulators may balk at extra expenditure, austerity should not become a justification for not spending money that will have the net effect of saving money.

It is likely that a similar initiative will be needed for provincial treasuries and for procuring organs of state themselves. The same can be said for studying and attaining the appropriate balance between insourcing and outsourcing in organs of state. These will necessarily require a longer term, more decentralised and difficult process, which the O-CPO can begin to address by generating and publishing data on capacity.

In the area of professionalisation, the National Treasury has recently established a Supply Chain Management (SCM) Interim Council responsible for developing a roadmap for public sector supply chain professionalisation and coordinating stakeholders into the effort. The SCM Interim Council has a bearing on political interference inasmuch as membership of professional bodies and the induction of procurement practitioners into the norms and standards of professionalism will create resources for and inclinations toward resistance against unwarranted political interference. Professional requirements for training and continuous education have obvious, important consequences for capacitation. There is considerable scope for a broader set of actors to assist this Interim Council in its work, especially by

lobbying professional organisations and universities to develop appropriate supply chain management programmes.

4.3 A single statute that coheres and provides for reform of the public procurement legal landscape and system

Since 2016, government has been committed to introducing a Public Procurement Bill into Parliament. The Minister of Finance has promised to table it in Parliament in the course of the current financial year. The Bill responds to the problems of fragmentation and inconsistency in the present public procurement legal framework and will play a significant role in enabling and constraining the process of wider reform, including for the reform ideas canvassed in this chapter.

4.4 A single regulatory authority with jurisdiction over the whole system

The O-CPO should be empowered to drive the process of cohering and continuously adjusting the public procurement system. These powers must traverse the whole system—in provincial and local government and public entities. This may involve subsuming all or some of the powers of regulators like the Construction Industry Development Board and the State Information Technology Agency. It might work with the provincial treasuries, which have occasionally been important sources of experimentation and innovation in the public procurement system, but with a clear, if arms-length, line of authority from the O-CPO down.

The appropriate location of this regulatory authority is a recurring debate among reformers, which goes back to the 1997 Green Paper. The O-CPO is currently the main contender, but its position must be formalised in statute. The advantages of the O-CPO, as presently instituted, are that it can ride on the powers of National Treasury under section 216 of the Constitution and draw on its capacity and prestige. Perhaps most importantly, the O-CPO can benefit from the relative immunity of National Treasury from political interference, demonstrated in market and public resistance to President Jacob Zuma's removal of finance ministers in 2015 and 2017..

It has been argued, not implausibly, and even though the emergence of the O-CPO represents progress in liberating public procurement from a narrow concern with public financial management, that retaining the O-CPO in National Treasury carries the risk of perpetuating the subordination of procurement. There are also conflicts between National Treasury's role as a public procurement regulator, on the one hand, and as a procuring entity in its own right, on the other. On these grounds, some reformers have proposed that the regulatory functions of the O-CPO should be consolidated and carved out into a public entity responsible directly to Parliament.¹⁸

¹⁸ Quinot, G. (2014). An institutional legal structure for regulating public procurement in South Africa. Research report on the feasibility of specific legislation for National Treasury's newly

These and a range of other options bring into play a number of values that are difficult to adjudicate on any single scale. Whatever the ultimate decision, reform-minded people should be agreed that the regulatory authority remain free of political interference. The risks, in this relation, of moving the O-CPO beyond the National Treasury are high, so special protections will be necessary to avoid them.

4.5 A principles-based, strategic, developmental approach to procurement

Jurisdictions across the globe are engaging with reform and improvement of their public procurement systems. A common question is how to optimise the relationship between procedural integrity—which in South Africa has meant the elaboration of more rigid rules—and the operational flexibility, especially in more complex processes, needed to achieve efficiency, effectiveness, and the promotion of social policy. The answer is often presented in terms of *principles-based regulation and strategic procurement*.

In 2009, the Organisation for Economic Co-operation and Development (OECD) proposed a set of integrity principles designed to counter corruption in a public procurement system.¹⁹ The World Bank, through its research initiative, Benchmarking Public Procurement, has also developed indicators closely based on the principles it believes underpin a good public procurement system.²⁰ These and other sets of principles are part of a shift in regulatory strategy away from rules and towards the use of standards and results monitoring to improve public procurement systems.²¹ In developing such an approach, South Africa can use the principles in section 217 of its Constitution, which states that public procurement should proceed within a system that is fair, equitable, transparent, competitive and cost-effective.

In practice related to principles-based regulation, strategic procurement often involves a more pragmatic, flexible and differentiated approach to procurement methodology.²² In answer to this approach in its own operations, the O-CPO has a Chief Directorate: Strategic Procurement. The basic idea of strategic procurement is that it recognises the importance of ensuring added value across each stage of the procurement process, from demand management, market research and specification, through purchasing, to contract and relationship management and review.

established Office of the Chief Procurement Officer. <http://africanprocurementlaw.org/wp-content/uploads/2016/01/OCPO-Final-Report-APPRRU-Web-Secure.pdf>.

¹⁹ Organisation for Economic Co-operation and Development. (2009). OECD principles for integrity in public procurement. OECD Publishing.

²⁰ World Bank, 'Benchmarking Public Procurement 2016: Assessing Public Procurement in 77 Economies' 2016, <https://openknowledge.worldbank.org/bitstream/handle/10986/22649/9781464807268.pdf?sequence=3&isAllowed=y>.

²¹ Black, J. (2008). Forms and paradoxes of principles-based regulation. *Capital Markets Law Journal*, 3(4), 425-457. <https://doi.org/10.1093/cmlj/kmn026>.

²² Kraljic, P. (1983). Purchasing must become supply management. *Harvard business review*, 61(5), 109-117. See also, <http://www.treasury.gov.za/publications/other/SCMR%20REPORT%202015.pdf>.

Although strategic procurement accepts that certain products—say those that are very price sensitive or for which there are many suppliers and competitive markets—are best purchased through competitive bidding, it argues that the range of products is such that significant differentiation in purchasing approach is needed along lines of product-type, sector, and purchasing entity. In many cases, for instance when products are complex, highly specific in their applications and few suppliers exist, a more relational, long-term and performance-based procurement methodology is necessary. This sort of differentiation is already advanced in the area of infrastructure procurement. The approach opens out into a recognition of the importance of a range of other adjudication criteria for public procurement, beyond price and preference, to include functionality, total lifecycle costs, and so on.

Developmental procurement refers to the use of public procurement to achieve broader developmental policy objectives. There are good arguments for the proposition that the Preferential Procurement Policy Framework Act, along with the Broad-Based Black Economic Empowerment Act, have been too rigid in their establishment at statutory level of the 90/10, 80/20 points system, which are based on firm-level B-BBEE scores rather than contract-level scores. There are also a range of policy concerns, such as green procurement, that have no expression in preferences. Beyond the points system lie strong complementarities between principles-based regulation, strategic procurement, and such developmental concerns. These complementarities can help create the flexibility needed to build new productive capacities in the private sector by way of mechanisms such as longer term, performance-based relationships around larger contracts that attain economies of scale.

South Africa should set its sights on this emerging vision of a principles-based, strategic, developmental procurement system that is better able to tailor its processes to its operational and social policy subject matter. This approach also recognises that procurement law and procedure is a means to achieve governmental aims and is not an end in itself.

The process, however, of moving towards such a system will be complicated and may involve broader institutional reforms in organs of state, for instance, the creation of chief procurement officers elevated to sit alongside chief financial officers and chief operations officers in strategic management. It will need to be rolled out in a tightly controlled, incremental manner alongside efforts to depoliticise and professionalise public procurement. Reform-minded people need to monitor this process and its vital interconnections. We propose to deal with this initially as a statutory matter in which statutory room must be created for the process to evolve.

The public procurement regulator, as part of a principles-based, strategic, and developmental approach to public procurement, should also have stronger powers to compel organs of state into transversal contracts, to intelligently leverage government purchasing power and foster economies of scale in strategic sectors. It

should be able to set price bands within which purchases must fit, to avoid rampant over-expenditure in key areas such as housing.

4.6 Enhanced enforcement mechanisms

Capacity and political considerations have tended to undercut oversight and enforcement operations in South Africa's public procurement system. Capacity shortfalls have resulted in a tendency to ration these functions, which has opened up regulatory gaps. Addressing this in public procurement requires capacitation of a central regulatory authority.

The most direct way in which political considerations have impinged upon regulatory decision-making has been through politicisation of the personnel practices of broader criminal justice institutions, such as the South African Police Service and the National Prosecuting Authority. In organs of state, oversight functions have suffered a similar fate; these issues are addressed in the chapters on personnel practices in the public service, the municipalities, and the criminal justice institutions.

Indirectly, regulatory functions that have not been directly politicised have generally held back enforcement actions, especially where these would implicate more powerful politicians and political networks. To avert the ever-present threat of direct politicisation, regulatory functions are compelled to reduce their exposure to political risks, by operating in accordance with political considerations.

The civil recovery and criminal enforcement mechanisms available to regulators and the leadership of procuring organs of state, have been undermined by these dynamics. The Public Audit Amendment Act, now law, gives the Auditor General the power to take appropriate remedial action, to issue certificates of debt where accounting officers and authorities fail to comply with this action, and to refer matters for criminal investigation. Although this is a welcome development, the Auditor General is nevertheless unlikely to fully escape the limited capacity and politicisation that have attenuated the efforts of other independent, public sector oversight and enforcement agencies. There is a long history of other countries that have developed creative and refined enforcement mechanisms to fill such gaps. These hinge on what is known as *qui tam*, shorthand Latin for 'he who sues on behalf of the King as well as for himself'. Any *qui tam* mechanism includes a law that defines an offence or an infringement of a right, coupled with a penalty or forfeiture that might be extracted from a person who violates or infringes the law. In public procurement, for example, fraud committed against the state might give rise to a claim for damages by the state. What distinguishes a *qui tam* mechanism, however, is that it amounts to a statutory grant of a general private right to enforce a specific law *for* the state, with efforts in this direction incentivised by a share of the resulting penalty or forfeiture.

Qui tam has an ancient pedigree. It originated in late-republican Roman law more than two thousand years ago and was developed in English law, especially from the fourteenth century. Today, in the US, *qui tam* is arguably the most effective technique available to the federal government for rooting out corruption and

fraud in public procurement. The US Department of Justice reported *qui tam* settlements and judgements of over 3 billion dollars in 2017, or 92% of all damages for ‘false claims’, which American law defines as fraud or ‘reckless disregard for truth or falsity’ in dealing with the state.²³

A number of features of modern *qui tam* account for its success. While public investigators and prosecutors might defer to political interests, *qui tam* enables private actors to pick up the slack. Evidence gathering by public investigators and consultants is costly in terms of personnel time and money. Although whistle-blowers can save the state these outlays by bringing inside information out into the open, there are prohibitive disincentives for whistle-blowing: whistle-blowers are commonly dismissed from their jobs, informally blacklisted in the job market, socially ostracised, subjected to counter-investigations and litigation, and worse. *Qui tam*, however, evens them up for their commitment to public integrity, with the prospect of a large reward with which to establish themselves in another professional field, geographical location, and so on, with the costs being borne not by the government, but by corrupt combinations themselves, in the form of damages they must pay to the state.²⁴ Further to these points, US law provides for triple damages in *qui tam* actions, to enhance incentivisation and avoid prejudice to the fiscus.

Qui tam actions are often launched by whistle-blowers employed in the state, who link up with law firms that specialise in these kinds of lawsuits. It is a civil action, with the burden of evidence on a balance of probabilities. It is not a replacement for, but a complement to traditional public enforcement. Evidence gleaned from *qui tam* proceedings can be used subsequently in criminal actions.

There are a number of other features of modern *qui tam* that constrain any possibilities for its abuse. A *qui tam* litigant, known as a ‘relator’, must be an ‘original source’ of information, in other words, they either voluntarily bring forth information before any public disclosure or provide additional information that is independent of, and materially adds to, publicly disclosed allegations. Relators must file, with the relevant information under seal for a specified time period—60 days in the US—to give government and the Department of Justice an opportunity to investigate and decide whether to intervene and take up the action; decline to intervene and allow the relator to act on behalf of the state; or, move to have the action dismissed with the possibility of review by a court. In the US, if the government joins, the relator is entitled to a minimum of 15 and a maximum of 25 per cent of the recovery in the event of success. If the government declines to join, the relator is entitled to a minimum of 25 and a maximum of 30 per cent to cover the costs of litigation. These arrangements amount to a sophisticated series of checks and balances between *qui tam* litigants, the government, and the courts. The effectiveness of specialist law firms in particular, as repeat players, is dependent on

²³ https://www.justice.gov/civil/page/file/1080696/download?utm_medium=email&utm_source=govdelivery.

²⁴ Braithwaite, J. (2008). *Regulatory capitalism: How it works, ideas for making it work better*. Edward Elgar Publishing.

their trustworthiness; a reputation for vexatious and frivolous lawsuits may lead to penalties and a failure to be taken seriously by both government and the courts in future proceedings.²⁵

Ordinary laws that apply to fraud, defamation, and so on also apply to *qui tam* litigants. Courts will adjust rewards between the minima and maxima according to such factors as the quality of the information provided, the expertise and legwork performed by supporting lawyers, and the litigant's complicity in giving rise to fraud against the state.

The available evidence suggests that arguments raised against *qui tam*, around the possibility of its abuse, are largely unfounded. In South Africa, a serious concern with corruption in public procurement should lead naturally to a serious consideration of *qui tam* as a remedy.²⁶

CONCLUSION

This chapter has sketched the set of challenges facing the public procurement system in South Africa, drawing on earlier published research and identifying five problems with the current regime. Just as importantly as diagnosing the problems, this chapter has suggested and motivated for a set of necessary and urgent reforms, beginning with bolstering the professionalism and capabilities of the civil servants operating the system itself. These reforms extend beyond those contained in the Public Procurement Bill. The chapter has pursued the vision of a public procurement system that is better designed and capacitated to play its constitutionally intended role in supporting economic and social development, calling for principles-based regulation and strategic procurement that is also developmental. It has advanced proposals to increase procurement policy coherence across government and to enhance enforcement against those who attempt to subvert the system.

Implicit in the analysis above is a call to mobilise people and organisations in broader society behind public procurement reform. Civil society organisations, firms and individuals from the business sector, and trade unions should engage with the ongoing albeit very slow reform process, applying pressure both to push such a reform process forward and to craft its details.

²⁵ Ibid.

²⁶ See Klaaren, Jonathan, and Ryan Brunette. 2020. 'The Public Procurement Bill Needs Better Enforcement: A Suggested Provision to Empower and Incentivise Whistle-Blowers' *African Public Procurement Law Journal* 7 (1): 16–25. <https://doi.org/10.14803/7-1-28>.

APPENDIX

Position Paper Proposals for Public Procurement Reform

In relation to *data and transparency*, which is currently poorly provided for and a problem for assessing deterioration and improvement in procurement performance:

Proposal 1

National Treasury should update the public on progress and timeframes for the implementation of its Integrated Financial Management System. It should report on investigations being conducted into procurement of this new system and on processes for consequence management.

Proposal 2

The Office of the Chief Procurement Officer (O-CPO) should develop, with relevant stakeholders, then publish and commit to, a schedule of data to be collected and kept on a longitudinal basis.

Proposal 3

The O-CPO should commit to an open-data and open-contracting standard, and to publishing procurement information in accordance with a schedule developed with relevant stakeholders.

Considering that insulation of the public procurement function is currently addressed in the other position papers in this series, proposals in relation to *capacitation and professionalisation* are:

Proposal 4

The National Treasury and the O-CPO should conduct a scientific study of work in relation to the task of reforming and directing, monitoring, supporting, and enforcing development of the procurement system. It should present a business case for bringing the O-CPO up to a staff complement and skills mix appropriate to these efforts

Proposal 5

The Supply Chain Management (SCM) Interim Council should commit to keeping concerned civil society, business, and other experts in the procurement field informed of its vision and road map for professionalisation. Such persons should commit to assisting the SCM Interim Council in realising this vision, by leveraging its contacts in broader society.

In relation to cohering the legal landscape and providing the legal underpinnings for public procurement reform, *a new Public Procurement Bill* should provide for the following:

Proposal 6

A single statute for public procurement should be legislated. It should incorporate, and provide for the repeal of, all other statutes that deal with public procurement. It should, in addition, provide for the following:

1. A single public procurement regulatory authority with jurisdiction over the whole public procurement system, including all organs of state currently under the Public Finance Management Act and the Municipal Finance Management Act.
2. Insulation of this single authority from political interference, either by retaining it within the National Treasury or providing special protections against political interference over and above those of an ordinary, independent public entity.
3. A flexible set of procurement principles and methods—i.e., just, open, limited, and direct methods to be defined and combined into a broader set of methods—which can be incrementally differentiated along lines of product, sector, and so on, in the course of evolving a principles-based, strategic, and developmental procurement system.
4. The statute should open the door to a wider set of goals in procurement processes, beyond price and preference alone, including in adjudication, to include functionality, life-cycle costs, industrial development, employment, green procurement, and so on.
5. Stronger powers for the public procurement regulator to compel organs of state into transversal contracts.
6. The ability to set price bands for purchases, e.g., R50 to R80 for a ream of 500 pages of A4 white paper.
7. The statute should, as per Proposal 5 above, establish the Supply Chain Management Interim Council, as a professional body with the relevant powers and functions.
8. The statute should, as per Proposal 3, include a justiciable open contracting and open data provision for public procurement.
9. Establish the basis for modern *qui tam* actions, giving a private right to enforce public procurement law, and incentivise private action through guaranteed minima for civil recoveries.

Sub-clauses (3), (4), (5), and (6) include opportunities to strike a better balance between concerns for procedural integrity and the need for operational flexibility in public procurement. They open out into a vision of what is defined here as a *principles-based, strategic, and developmental procurement system*, which this chapter gestures towards incrementally creating.

In relation to enforcement, the chapter argues that to close gaps in governmental will and capacity, a *general private right to enforce public procurement law* should be included in statute. This should take the form of civil actions for recovery of damages that result from procurement fraud, incentivised by a guaranteed

minimum share of recoveries. This mechanism, known as *qui tam*, has been tried and tested elsewhere in the world.

Proposal 7

Government must include a *qui tam* provision in the upcoming Public Procurement Bill. It may be necessary to draw on local and international expertise to draft this provision. PARI offers to support development of such a proposal, working in collaboration with a network of experts from civil society and academia. Beyond this, the O-CPO should develop a business case that defines the institutional parameters and capacity requirements for operationalisation of a *qui tam* provision, an initiative with which such a network could also assist.

This short policy-oriented book analyses three distinct and key parts of the South African public administration: the system of recruitment and appointment of public servants, high-level appointments within the criminal justice sector, and public procurement. The three chapters argue for feasible and effective reforms within each of these parts of the state.

“This is a highly impressive, timely, and relevant collection of reviews and proposals.

The chapters are carefully grounded in research, with some original ideas, and well written. The summary of practical proposals for reform at the end of each chapter is constructive, especially given the many challenges faced by the public service. This book is mandatory reading for those seeking to realise the constitutional values of accountability, responsiveness and openness.”

Prof Hugh Corder, University of Cape Town, Faculty of Law

“The building (and the rebuilding) of a capable state is a crucial task in our society. The proposals collected by PARI in this brief book identify several places where it is urgently needed to begin this work. It will be up to all of us – as engaged citizens, political leaders, and hardworking civil servants – to take these ideas forward.”

Ms Pam Yako, Zenande Leadership Consulting, former Director-General, Department of Water Affairs, and former Director-General, Department of Environmental Affairs and Tourism

“*Reforming Public Administration in South Africa: a Path to Professionalisation* delivers an incisive critique of why the progressive aims of building a professional and ethical democratic public service have faltered. With a focus on the corrosive effects of political interference on recruitment, appointments and dismissals, and procurement, the contributors offer a concrete plan for rebuilding the institutional integrity of the South African public service from the inside out.”

Dr Vinothan Naidoo, University of Cape Town, Department of Political Studies

2021

