ABSTRACT

In 2000 the South African government enacted the Preferential Procurement Policy Framework Act (PPPFA) to give effect to Section 217 of the Constitution pertaining to the use of public sector procurement to achieve socio-economic objectives. This research examined the effectiveness of the PPPFA in promoting the establishment and development of South African construction enterprises whose shareholders were historically disadvantaged individuals (HDI's).

Both primary and secondary quantitative data sources were used to achieve the research objectives. Procurement data from national and provincial governments covering a period of five years (from April 2006 to March 2011) were sourced from the National Treasury. These were supplemented with primary data collected through a survey questionnaire administered to a stratified sample of HDI-owned construction enterprises.

The findings indicate that the application of the preferential procurement policy contributed to increased participation of HDI-owned construction enterprises in the government tendering process, and greater success in winning government contracts. The findings also show that the financial premiums incurred in implementing the PPPFA were only 2% of cumulative project value, therefore substantially lower than contemplated by government when the preference points scoring formula was originally formulated.

While the analysis of government procurement data indicates that HDI-owned enterprises benefited as a direct result of the PPPFA, the survey results suggest that supply side constraints limited the pace and extent of their business growth. Taking into account the challenges and realities of the SA construction industry, the findings indicate that a strategy of unbundling large value government construction contracts is needed to provide greater business opportunities for small and medium-sized construction enterprises. Given the low premiums incurred as a result of implementing preferential procurement, it is contended

that the application of the 80/20 and 90/10 points scoring system should be reviewed to create more targeted contract opportunities for HDI's and to provide an enabling environment to achieve the socio-economic goals as stipulated in the PPPFA.

This research is the first in-depth investigation into the PPPFA's effectiveness in promoting the establishment and development of HDI-owned construction enterprises. Its findings therefore provide relevant empirical basis to review current preferential procurement practices and inform future national policy decisions.