

# DRAFT SMME POLICY FOR EMNAMBITHI LADYSMITH MUNICIPALITY

## 1. LEGAL FRAMEWORK

- Broad-Based Black Economic Empowerment Act No 53 of 2003 of the Employment Equity Act No 55 of 1998;
- Preferential Procurement Policy Framework Act No 5 of 2000
- National Small Business Act 102 of 1996;
- Skills Development Act 97 of 1998
- The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa published by the Department Trade and Industry reference WPA/1995. 16317 28 MARCH 1995

## 2. DEFINITION

### 2.1 Historically Disadvantaged Individual (HDI)

The definition includes Black, Women, Disabled Individuals and preference has been given to all these target groups who, due to the apartheid policy that had been in place, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act no 110 of 1983) or the constitution of the Republic of South Africa (Act No 200 of 1993) the interim Constitution. Provided that a person, who obtained South African citizenship on or after the coming to effect of the interim Constitution, is deemed not be an HDI.

### 2.2 Priority Population Group (PPG)

Black Individuals who fall into population groups that were not offered a franchise in the national elections before or after the introduction of the 1984 tri-cameral parliamentary system and only received a franchise during 1994. That exclusion had a major negative bearing on their lives therefore, resulting in them being worse affected in terms of poverty levels, unemployment and/or unfulfilled basic needs (Water, Electricity, Housing & Sanitation)

### 2.3 Black Business Enterprise (BBE)

At least 26% Black owned in terms of equity and voting rights/powers, with a corresponding management representation at all levels. See below

### 2.4 Priority Business Enterprise (PBE)

At least 26% Black owned by individuals, which are from the Priority Population Group in terms of equity and voting rights/powers, with a corresponding management representation at all levels. See below

### 2.5 Women Business Enterprise (WBE)

At least 26% Women owned by in terms of equity and voting rights/powers, with a corresponding management representation at all levels. See below

## **2.6 Disabled Persons Business Enterprise (DPBE)**

At least 26% Disabled owned in terms of equity and voting rights/powers, with a corresponding management representation at all levels. See below

A permanent, or prolonged impairment of physical, intellectual, or sensory structure, or function, which results in restricted, or lack of, ability to perform an activity in the manner, or within the range, considered normal for a human being.

## **2.7 Disability**

A permanent, or prolonged impairment of physical, intellectual, or sensory structure, or function, which results in restricted, or lack of, ability to perform an activity in the manner, or within the range, considered normal for a human being.

## **2.8 Disabled Person**

An Individual who has a Disability and as a result suffers from loss, or limitation, of opportunity to take part equally with others in the context of any activity relating to the execution of a contract.

## **2.9 SMME**

A supplier or entrepreneur with an annual turnover of R 25 million or less and with black ownership, risk and control of not less than 50% is termed a small Black supplier (SBS).

## **2.10 Cooperatives**

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

## **2.11 Black Empowering Enterprise**

Those enterprises in which Black people enjoy ownership and control, and where they participate in the day to day decision making and management of such enterprises.

A supplier with a turnover of more than R25 million and with Black ownership and risk and control of 10% to less than 50% is termed Black empowering enterprise.

## **2.12 Black- Owned Enterprises**

Black-owned enterprise is defined as being a business that is 50.1% owned by Black persons and where there is substantial management control.

The crucial factor is that ownership refers strictly to economic interest in the relevant business. Black people must be eligible to receive at least 50.1% of the profits. The term substantial management control refers to membership of any board or similar governing body of that business.

The quantitative measure placed upon the level of Black ownership required in order for a business to be regarded, as a Black-owned enterprise is absolute.

Should Black ownership amount to anything less than 50.1% the business under scrutiny will not qualify as a Black-owned enterprises.

At a national level there is no current indication as to the level of management representation that would be considered substantial, although the BEE Commission report suggested that the 10-year target that should be in the region of 40%.

## **2.13 BLACK ECONOMIC EMPOWERMENT**

The practice, laws and regulations employed by the state and organs of the state to enhance business opportunities for enterprises that are predominately owned or operated by the previously disadvantaged individuals.

## **2.14 Disabled Persons Business Enterprise**

At least 26% Disabled owned in terms of equity and voting rights/ powers, with a corresponding management representation at all levels.

## **2.15 Broad-Based Black Economic Empowerment (B-BBEE)**

The economic empowerment of all Black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that includes, but are not limited to:

Increasing the number Black people that manage, own and control enterprises and productive assets;

Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;

Human resource and skills development;

Achieving equitable representation in all occupational categories and level in the workforce;

Preferential procurement; and

Investment in enterprises that are owned or managed by Black people

## **2.16 Affirmative Procurement**

A procurement policy that uses procurement to target companies owned by previously disadvantaged individuals to enable their participation in the provision of goods and services.

## **3. INTRODUCTION**

Emnambithi/ Ladysmith Municipality has committed itself to the following key priorities with respect to all procurement dealings:

- 3.1 Increased usage of Local Resource
- 3.2 Redressing of imbalances on Employment and Ownership Patterns through Black Economic Empowerment
- 3.3 Creation of Opportunities for Job creation and Poverty Alleviation
- 3.4 Stimulation of Skills Development and Transfer
- 3.5 Fast tracking the Growth and Ensuring sustainability of SMME's

## **4. SMME AND COOPERATIVE CHALLENGES**

The municipal local economic development interventions on the SMME's/cooperatives development shall be informed by the following:

Graduates and semi-literate youth are involved in crime because of exclusion and discrimination from local economy

There are no SMME's/cooperatives support centers focusing on such services as tender advice and accessing capital

SMME's and cooperatives generally lack skills which makes them unemployable

- 4.4 Lack of resources for promoting economic development amongst SMME's and cooperatives.
- 4.5 The municipal procurement policy is not conducive for the inclusion of the SMME's/cooperatives.
- 4.6 Previously disadvantaged groups are not yet benefiting from current municipal and local business opportunities.
- 4.7 There is no inclusion of the disabled, women, youth and previously disadvantaged in economic development.

## **5. OBJECTIVES**

- 5.1 To create opportunities for employment and economic empowerment beyond just ABE status as is the case with the current policy.
- 5.2 The inclusion of priority groups that have not benefited from the implementation of the current policy.
- 5.3 To create a significant contribution towards job creation, poverty alleviation and economic growth.
- 5.4 To have a procurement policy that is linked with the IDP.
- 5.5 To develop the skills of 3% of unemployed and unemployable youth each year until 2010 through an integrated skills development programme
- 5.6 To increase the active participation of Emnambithi/ Ladysmith Municipality SMME's and cooperatives in the local economy by 5% every year until 2015 through a sustainable black economic empowerment programme
- 5.7 To formulate a policy that enables Emnambithi/ Ladysmith Municipality to impact significantly in improving the quality of life of the majority of its citizens/customers, by optimizing Employment and Economic Empowerment in all its dealings; resulting in the annual procurement spend generally reflecting Ladysmith Demographics.
- 5.8 To mainstream SMME and cooperatives development in the affairs and structures of the municipality through annualized planning, implementation, monitoring and evaluation of black economic empowerment programmes utilizing an escalating budget of at least 5% of the total municipal budget

## **6. SMME DEVELOPMENT TARGETS**

SMME and COOPERATIVES participation in the municipal economy is a priority of the Emnambithi Ladysmith Municipality. This shall be achieved through an SMME Economic Empowerment Programme. The programme shall have the following components:

- 6.1 The municipality shall set aside at least 25% of all jobs created by the municipality, other sector agencies and private sector, more especially those doing business with the municipality, for unemployed local youth cooperatives in the area.
- 6.2 Facilitate at least 25% participation of local SMME's and cooperatives entrepreneurs in business opportunities created by the municipality and within the municipality.
- 6.3 Avail at least 30% of suitable land for urban agriculture, industrial and commercial development in the municipality to local SMME's and cooperatives.

- 6.4 Facilitate and support the formation of SMME's/ co-operatives that shall be linked to production processes across sectors such as tourism, manufacturing and information technology
- 6.5 Facilitate the success of at least 70% of the SMME's/cooperatives enterprises that are doing business with the municipality through the provision of institutional and technical support to young entrepreneurs.
- 6.6 Facilitate the preparation of youth in and out of school for the exploitation of economic opportunities available through mechanisms such as career guidance and life-skills. Implementation of this programme must be simultaneous with the other programmes of this strategy as they are closely related.

## **7. PROCUREMENT METHODS TO BE USED BY EMNAMBITHI LADYSMITH MUNICIPALITY**

### **7.1 GENERAL METHODS**

A Preference Points System must be developed, which awards tenders on the basis of points for price and/or the procurement priorities/developmental objectives of the Emnambithi/ Ladysmith Municipality.

## **8. SPECIFIC TARGETS**

### **8.1 Market Segment Reservation**

A specific market segment or sub-segment is set aside for particular enterprises

### **8.2 Entry Mechanism**

Certain enterprises are granted the opportunity to step in once the cheapest bid has been established provided that they match the terms and conditions of this bidder

### **8.3 The prescription of fixed contract participation goals**

A fixed percentage of the contract price, wherever possible, must, in terms of the contract, be contracted out of specific enterprises

### **8.4 The prescription of the amount of the contract price which is to be spent on labour**

A fixed percentage of the contract amount, must, in terms of the contract be spent on labour

### **8.5 The prescription of the specific employment-intensive technologies and methods of construction/manufacture**

Contractors are, in terms of the contract, restricted in terms of their use of plant and equipment and/or are compelled to employ specific technologies/construction/manufacturing methods in order to maximize the use of relatively unskilled local labour

Any combination of the above methods, noting that the general methods are as outlined in the tables below and any amendments thereto are to be discussed with the duly authorized CFO at project conceptualization/feasibility stage.

## **9. DATA BASE OF SELECTED GROUP**

As a general rule, all suppliers, Service Providers and Contractors who want to do business with Emnambithi/ Ladysmith Municipality should ensure that they are registered in Emnambithi/ Ladysmith Municipality's Supplier Register/Database

The supply management unit will leave a database opened for local Small Micro and Medium Enterprises throughout the year.

The Department of Economic Development will identify five suppliers of different products for mentorship for a period of 36 months

## **10. AWARDING SMME'S**

Once graduated, the selected suppliers shall be afforded an opportunity to forward quotations on every item to be purchased by the municipality. The Supply Chain Management Unit shall award a contract to the SELECTED GROUPS even if their prices exceed the market price by not more than 10%.

## **11. ANNUAL SUPPLY**

11.1 The selected group shall be given two years to graduate into the next stage known as the EMPOWERMENT GROUP

11.2 Companies on the Empowerment Group shall be entitled to be registered on the annual supply data base for a period of three years even if their prices exceeds their market price by not more than 15%.

Empowerment group companies shall be expected to submit their audited annual financial statements to the municipality within 2 months after their financial year-end.

## **12. PAYMENTS TO SMME's (EARLY PAYMENT CYCLES)**

SMME's who fell within the very micro category will be paid within five days of receipt of approved invoice and all other payments are to be within 14 days

## **13. DELIVERY OF SUPPLY**

SMME shall be expected to deliver goods and services within 24 hours failing which orders will be cancelled at no expense to council

## **14. ROLE OF THE ESTABLISHED ENTERPRISES**

14.1 Established enterprises shall be legible to forward quotations even if their prices are above the market price only if 25% of their companies are owned by the previously disadvantaged local community.

14.2 Local established companies shall take precedent of other competitors even if their prices exceeds the market price by not more than 5% as long as they will prove that 30% of their products will be supplied by the SELECTED GROUP

## 15. ROLE OF THE MUNICIPALITY

15.1 Council shall declare certain commodities for the purpose of sourcing them from the previously disadvantaged groups and SMME's

15.2 Council shall provide the necessary support for the identified groups to be mentored until they reach a desired stage of being competitive and self-reliant.

## 16. SERVICE LEVEL AGREEMENT

16.1 Selected SMME's shall be obliged to enter into a service level agreement with the council

## 17. CONTRACT LIMITS FOR SMME'S

Lower Limit	Upper Limit	Minimum Procurement Quotes	Tender Charge	Sureties (10%)
R0	R300	1 Verbal Quote	No	No
R301	R500	1 Verbal Quote	No	No
R501	R1 000	2 Verbal Quote	No	No
R1 001	R3 000	3 Verbal Quote	No	No
R3 001	R9 000	2 Written Quote	No	No
R9 001	R30 000	3 Written Quote	No	No
R30 001	R100 000	3 Written Quote	No	No
R100 001	R200 000	Quotation to be Advertised	R50	No
R200 001	R1 million	Public Tender	R100	Yes
>R1 million	R5 million	Public Tender	R150	Yes
>R5 million	R10 million	Public Tender	Normal	Yes
>R 10 million		Public Tender	Normal	Yes

**Supply Chain Unit is to ensure that local content/input is maximised.**

## 18. CONTRACT CLASSES

CLASS	DESCRIPTION	POINTS FOR PRICE/DEVELOPMENT OBJECTIVES
Major	1. Contracts, which are of sufficient, scope and size to warrant the attainment of socio-economic objectives by means of resource specifications (>R500 000). 2. 05% of Partnership with local SMME's	90/10
Minor	Contracts which have lower financial value than Major contracts and in which direct preferences are utilised to achieve socio-economic objectives (R10 000 to R500 000)	80/20
Micro	A minor contract of very low value (<R10 000)	

## 19. ADJUDICATION METHODS

80/20 (<-R500 000)

### Ownership

% Ownership		Black	PPG	Women	Disabled	Total
26 to 50	Influenced	0.50	1.00	0.75	0.50	
51 to 70	Empowered	1.50	3.00	1.50	1.25	
76 to 100	Substantial	2.50	5.00	2.50	2.00	12

### Status/ Size: SMME

General			2.00			Total
BBE	At least Empowered		1.00			
PBE	At least Empowered		1.00			
WBE	At least Empowered		1.00			
DPBE	At least Empowered		1.00			
	Sub Total		6			6

**90/10 (>R500 000)**

**Ownership**

<b>% Ownership</b>		<b>Black</b>	<b>PPG</b>	<b>Women</b>	<b>Disabled</b>	<b>Total</b>
26 to 50	Influenced	0.25	0.50	0.38	0.25	
51 to 70	Empowered	0.75	1.50	0.75	0.68	
76 to 100	Substantial	1.25	2.50	1.25	1.00	6

**Status/ Size: SMME**

<b>General</b>			<b>1.00</b>			<b>Total</b>
BBE	At least Empowered		0.50			
PBE	At least Empowered		0.50			
WBE	At least Empowered		0.50			
DPBE	At least Empowered		0.50			
	Sub Total		3			3

**Location**

						<b>Total</b>
<b>SA</b>			0.25			
<b>KZN</b>			0.25			
<b>Uthukela</b>			<b>0.50</b>			
<b>Ladysmith</b>			<b>1.00</b>			<b>2</b>