

TERMS OF REFERENCE: ANNEXURE A

SCM /Tender Ref #:	DPME07/2018-19
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Request for proposals for:	Research on delays and non-payment by Government on Small, Micro and Medium Enterprises
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1. BACKGROUND / CONTEXT

In terms of Section 38(1)(f) of the Public Financial Management Act (PFMA), 1999 (as amended), Accounting Officers (AO) are required to settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period. National Treasury (NT) published regulations in terms of the PFMA on 15 March 2005, specifying that the prescribed period for the payment of suppliers is 30-days from receipt of a legitimate (undisputed) invoice. Other legislative mandates on payment of suppliers are found in the Municipal Finance Management Act of 2003 and Instruction Note Number 34 of.

The Department of Planning Monitoring and Evaluations (DPME), in partnership with NT and Department of Public Service and Administration (DPSA), has been monitoring progress of national and provincial departments in complying with the legislative requirement for payments of suppliers as stipulated. DPME monitors and reports on a quarterly basis to Cabinet and Parliament. The Medium Term Strategic Framework of 2014-2019 reports, amongst others, on the performance of departments in relation to compliance within 30 days payment of invoices. This is also a standing item on the agenda of the President's Coordinating Council (PCC). Payment of suppliers within 30 days is thus a key priority of government.

2. PROBLEM STATEMENT

Whilst the problem of late/non-payment of invoices is not unique to government, it is of grave concern to government, given its impact on the small business sector and service delivery. The latest data submitted to the National Treasury shows that the problem of non-payment of invoices persists. Data for the fourth quarter of 2017/18 financial year shows that provincial departments owed suppliers a substantial amount of money, followed by specific national departments. This shows that departments are battling to sustain any improvement trajectory in this area. The National Development Plan has identified the role of the small business sector as critical to the economic growth of the country and government views the continued non-compliance with the requirements to pay invoices on time in a very serious light. This practice is counterproductive to government's stated objective of employment creation and poverty alleviation.

Whilst government is aware of the reasons resulting in delays in payment of invoices, the full extent of the impact on small business sector has not been established. According to the research team's initial analysis of the data and evidence available from the cases and interaction with affected departments, some of the broad challenges include system challenges, supply chain management processes and budgetary constraints.

3. OBJECTIVES AND SCOPE OF PROJECT

Government notes with concern, this problem of non-compliance in the payment of invoices within 30 days, and acknowledges the severe implications thereof on Small, Micro and Medium Enterprises (SMMEs) including the negative effects on service delivery. With evidence of a worsening situation, DPME is undertaking to investigate this problem and require further research to supplement the information generated by Government. Evidence is needed to assist in devising strategies to mitigate this challenge. Furthermore, research will help develop insight on the plight of the small business sector, the challenges they face and the ripple effect of non-payment. The aim of the study is to determine the impact of delay or non-payment by Government on SMMEs and the implications thereof on the economy, government relations with service providers and service delivery. Specific objectives are provided with related indicators recommended. The bidder is invited to identify and formulate other relevant output/outcome/impact measures:

3.1. To what extent is there a problem of delay or non-payment of invoices by government?

- Number of SMMEs affected by delay/non-payment by Government
- Type of services rendered to Government by these SMMEs
- Profile of key SMMEs /Sample profile (capacity, income, economic indicators etc.)
- Proportion of SMMEs affected to GDP

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3.2. What is the effect of delay or non-payment by government on SMMEs?

- Number of small businesses that have been forced to close down as a result of non-payment
- Number of jobs that have been lost as a result of businesses closing down
- How much money is spent through the litigation processes?
- How many businesses have been deregistered due to tax clearance?

3.3. What are the outcomes on the livelihood of those directly and indirectly affected?

- What are the social outcomes related to delay or non-payment of invoices to SMMEs within 30 days? (e.g. Dependency ratio ; unemployment; non-payment of utility bills; health and education costs etc.)

3.4. What is the impact of delay or non-payment on the economy?

- Current contribution of the small business sector to the country's GDP and how this has been impacted by the culture of non-payment

3.5. How does delay or non-payment within 30 days impact on business relations with Government?

- What risk mitigation strategies do suppliers include in their engagement/business with government?
- How is the supplier pool available to government affected in terms of number of bids received, competition, pricing etc.?
- In what ways is quality of service compromised?
- What are the financial and non-financial implications on Government?
- What are the unintended consequences of delay or non-payment? (example: fraud and corruption)

3.6 What provisions should be made in the National Small Business Act for addressing non-payment within 30 days?

- What are the expectations of the small business sector from Government?
- What are the lessons learnt from other countries?
- Who are the various stakeholders involved in the policy review process and what are their roles

4. PROPOSED METHODOLOGY / APPROACH

This research study seeks to understand the impact of late and non-payment issues on SMMEs, and its implications thereof. The study will adopt a mixed method approach in addressing the objectives, where quantitative and qualitative research methods will be used to generate the data needed to assess the impact. In assessing impact, we are interested in the causal effects of delay or non-payment of invoices within 30 days.

4.1. Research design

Quantitative research methods will be adopted to answer objectives 3.1 and 3.2, while objective 3.3 will require qualitative/case-study design to understand the social and economic implications of delayed or non-payment within 30 days. Objectives 3.4 and 3.5 will require an appropriate design that measure impact relevant to this investigation. The bidder will provide details of the mixed methods and the impact design in the proposal, including related instruments for the primary research component. It is highly recommended that the bidder provide a synthesis of knowledge by consulting and using existing evidence to define the context and provide international comparisons where possible.

4.2. Data collection and sampling

Existing data within Government will be made available to the successful bidder and a confidentiality clause will be signed. Primary data collection will be required for the qualitative component, with access to the participants facilitated by DPME and based on the approved sample. Guided by an appropriate sampling strategy and data analysis, the SMMEs could be grouped in order to draw out the impact. Primary data derived from the study should be organised and submitted to DPME together with the final product. Bidders are invited to state the sampling size, rationale behind the sampling size, and price per sampling category.

4.3. Analytical framework

The bidder is invited to develop or adopt an effective analytical framework to report on the findings. The impact of delay in or non-payment may have differing outcomes depending on the various factors impacting on the SMMEs. DPME requires insight into these impacts.

4.4. Project governance

The research project will be overseen by a reference group, which will be chaired by DPME. The objective of this group is to ensure access to data, relevance, effective coordination and contribution from the partners to

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support the research process and facilitate use of its findings. The reference group will comprise of representatives from DPME, NT, Department of Small Business Development (DSBD) and Department of Public Service Administration (DPSA). The Office of the Public Service Commission (OPSC) will act in an advisory capacity to the reference group. The successful bidder will report to the reference group as set out in the next session.

4.5. Ethical considerations

Ethical considerations will be observed in the use of public data made accessible by government and information derived from the research. The bidder will be subject to a confidentiality agreement to ensure that no details of the small business sector and the participants in the research will be divulged, shared or published at any time. The initial findings will be presented at a workshop, including the reference group and relevant stakeholders before finalization of the report.

5. DELIVERABLES AND TIME FRAMES

Description	Expected time frame (days)	% of project (Payment)
Approval of the inception report (where the proposal is discussed, reviewed and final proposal approved before initiating the research)	5	5%
Sampling strategy and data collection plan	5	
Data collection/sourcing	25	
Approval of the analysis and findings	15	60%
Approved first draft report	5	
Briefing to reference group and integrate feedback	5	
Approved finalized report	3	
Stakeholder workshop to present findings to a broader audience	2	35%
TOTAL	65 days	100%