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**Construction procurement —**

**Part 5:**

**Participation of targeted enterprises in  
contracts**

*Marchés de construction —*

*Partie 5: Participation des entreprises cibles aux contrats*

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## Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

International Standards are drafted in accordance with the rules given in the ISO/IEC Directives, Part 2.

The main task of technical committees is to prepare International Standards. Draft International Standards adopted by the technical committees are circulated to the member bodies for voting. Publication as an International Standard requires approval by at least 75 % of the member bodies casting a vote.

Attention is drawn to the possibility that some of the elements of this document may be the subject of patent rights. ISO shall not be held responsible for identifying any or all such patent rights.

ISO 10845-5 was prepared by Technical Committee ISO/TC 59, *Buildings and civil engineering works*.

ISO 10845 consists of the following parts, under the general title *Construction procurement*:

- *Part 1: Processes, methods and procedures*
- *Part 2: Formatting and compilation of procurement documentation*
- *Part 3: Standard conditions of tender*
- *Part 4: Standard conditions for the calling for expressions of interest*
- *Part 5: Participation of targeted enterprises in contracts*
- *Part 6: Participation of targeted partners in joint ventures in contracts*
- *Part 7: Participation of local enterprises and labour in contracts*
- *Part 8: Participation of targeted labour in contracts*

## Introduction

Procurement is the process which creates, manages and fulfils contracts. Procurement can, as such, be described as a succession of logically related actions occurring or performed in a definite manner and which culminate in the completion of a major deliverable or the attainment of a milestone. Processes, in turn, are underpinned by methods (i.e. a documented, systematically-ordered collection of rules or approaches) and procedures (i.e. the formal steps to be taken in the performance of a specific task), which are informed and shaped by the policy of an organization. Methods and procedures can, likewise, be documented and linked to processes.

It is becoming increasingly more important to consider procurement-related deliverables other than those relating to the primary purpose of the procurement itself, particularly those relating to poverty reduction, job creation, local economic development and local industry development. Key performance indicators relating to the engagement of enterprises, joint venture partners, local resources and local labour in contracts are needed to set targets in contracts or to measure procurement outcomes. Processes, procedures and methods are required to quantify, measure and verify a contractor's performance in relation to such indicators in an auditable manner.

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# Construction procurement —

## Part 5:

## Participation of targeted enterprises in contracts

### 1 Scope

This part of ISO 10845 establishes a key performance indicator, in the form of a contract participation goal (CPG), relating to the engagement of targeted enterprises on a contract for the provision of goods, services or engineering and construction works. A CPG may be used to measure the outcomes of a contract in relation to the engagement of targeted enterprises or to establish a target level of performance for the contractor to achieve or exceed in the performance of a contract.

This part of ISO 10845 sets out the methods by which the key performance indicator is measured, quantified and verified in the performance of the contract with respect to two different targeting strategies: targeting strategy A and targeting strategy B (defined in Clause 2).

NOTE Annex A contains a commentary on the clauses in this part of ISO 10845. Annex B provides guidance on how to develop the targeting data for a procurement document using this part of ISO 10845.

### 2 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

#### 2.1

##### **allowance**

amount provided for in the contract by the employer relating to one or more of the following:

- a) the performance by the contractor of work or services that are foreseen but cannot be accurately specified at the time that the contract was entered into;
- b) work or services to be performed, or goods provided, by a subcontractor who is either nominated by the employer or is selected by the employer in consultation with the contractor after the award of the contract;
- c) provision for price adjustment for inflation; or
- d) other budgetary provisions intended to cover employer risks.

#### 2.2

##### **commercially useful function**

performance of real and actual work, or the provision of services, in the discharge of any contractual obligation which includes, but is not limited to, the performance of a distinct element of work which the enterprise has the skills and expertise to undertake and the responsibility for management and supervision

## 2.3

### **contract amount**

financial value of the contract

- a) at the time of the award of the contract, exclusive of all allowances and any value added tax or sales tax which the law requires the employer to pay to the contractor (targeting strategy A); or
- b) upon completion of all contractual obligations, exclusive of any value added tax or sales tax which the law requires the employer to pay to the contractor (targeting strategy B)

## 2.4

### **contract participation goal**

#### **CPG**

value of goods, services and works for which the contractor contracts targeted enterprises exclusive of any value added tax or sales tax which the law requires the employer to pay to the contractor, expressed as a percentage of the contract amount associated with the targeting strategy that is identified in the targeting data

## 2.5

### **contractor**

person or organization that contracts to provide the goods, services or engineering and construction works covered by the contract

## 2.6

### **control**

possession and exercise of legal authority and power to manage the assets, goodwill and daily operations of an enterprise, and the active and continuous exercise of appropriate managerial and financial authority and power in determining the policies and directing the operations of the said enterprise

## 2.7

### **employer**

person or organization entering into the contract with the contractor for the provision of goods, services, or engineering and construction works

## 2.8

### **employer's representative**

person authorized to represent the employer and named as such in the contract data or targeting data

## 2.9

### **joint venture**

grouping of two or more contractors acting as one legal entity, where each is liable for the actions of the other

[ISO 6707-2:1993, definition 3.4.22]

## 2.10

### **manufacturer**

sole trader, partnership or legal entity that operates or maintains a factory or establishment that produces on its premises, goods required in terms of the contract

## 2.11

### **main contractor**

contractor who subcontracts part of his contract

[ISO 6707-2:1993, definition 3.8.13]

## 2.12

### **ownership**

legal right of possession, including the right of disposition, and sharing in all the risks and profits commensurate with the degree of ownership interest or shareholding, as demonstrated by an examination of the substance, rather than the form, of ownership arrangements

**2.13****participation parameter**

fraction of the contract or subcontract which may be used to represent the value of the contribution and value of the commercially useful function performed by targeted partners in a joint venture

**2.14****supplier**

sole trader, partnership or legal entity that owns, operates or maintains a store, warehouse or other establishment in which goods are bought, kept in stock and regularly sold to wholesalers, retailers or the public (or all three) in the usual course of business

**2.15****targeted enterprise**

sole trader, partnership or legal entity which is engaged in the performance of the contract and defined as the target group in the targeting data

**2.16****targeted enterprise declaration affidavit**

affidavit, of the format provided for in the procurement documents, which confirms the bona fides of a targeted enterprise

**2.17****targeted partner**

targeted enterprise functioning as a partner in a joint venture

**2.18****targeting data**

data, provisions and variations that make this part of ISO 10845 applicable to a particular contract (see Annex B)

**2.19****targeting strategy**

an approach which is pursued to make a contract participation goal an obligation of contract

**2.19.1****targeting strategy A**

targeting strategy which

- a) involves the granting of tender evaluation points by the employer in the evaluation of tender offers in return for the tendering of a contract participation goal or an undertaking to attain a specified contract participation goal at the time that tenders are evaluated, or
- b) requires a contractor to achieve a minimum specified goal in the performance of a contract, or
- c) involves both (a) and (b)

**2.19.2****targeting strategy B**

targeting strategy which

- a) involves the payment of a financial incentive to a contractor for the attainment of a specified contract participation goal, or
- b) requires the contractor to record and report on the quantum of work generated for targeted labour

**NOTE** Targeting strategy A bases the contract participation goal on the tendered amount minus allowances, i.e. on the expenditure which the contractor can commit to at tender stage. This strategy allows the employer to adjust the contract participation goal to take account of any failure to achieve such goal in the performance of the contract due to factors which are beyond the contractor's control or are unforeseen at tender stage. Targeting strategy B measures the contract participation goal based on the final contract value. Targeting strategy A accordingly measures the performance

of contractors in the engagement of targeted labour in relation to that which can be committed to at tender stage, whereas targeting strategy B does so in relation to that which is finally achieved.

### 3 Requirements

#### 3.1 Contract participation goal

The contractor shall engage targeted enterprises directly or indirectly in the performance of the contract to the extent that the total monetary value of such engagements, exclusive of any value added tax or sales tax required by law, is sufficient to achieve the contract participation goal for the targeting strategy specified in the targeting data.

The contractor shall, in the case of targeting strategy A, submit to the employer's representative details of his plan to achieve the contract participation goal, on the contract participation goal implementation plan form contained in Annex C, within five working days of being instructed to do so. If no such instructions are given, these plans shall be submitted before the submission of the first claim for payment.

**NOTE** The information contained in the contract participation goal implementation plan facilitates, in the first instance, the monitoring of the performance of the contractor in terms of his contract participation goal obligations and, in the second instance, the making of any adjustments to compensate for quantitative underruns, the elimination of items, etc. (see Clause 6).

#### 3.2 Achieving the contract participation goal

##### 3.2.1 General

A contractor shall achieve the contract participation goal by any of the following means, unless otherwise specified in the targeting data

- a) **Method 1:** by virtue of his targeted enterprise status,
- b) **Method 2:** by entering into a joint venture agreement with one or more targeted partners as set out in 3.2.3,
- c) **Method 3:** by engaging one or more targeted enterprises to perform commercially useful functions in the performance of the contract,
- d) **Method 4:** by engaging non-targeted enterprises who, in turn, engage one or more targeted enterprises to perform commercially useful functions in the performance of the contract,
- e) **Method 5:** by engaging non-targeted enterprises who, in turn, enter into joint venture agreements with one or more targeted partners as set out in 3.2.3 to perform commercially useful functions in the performance of the contract, or

by any combination of Methods 1 to 5.

##### 3.2.2 Verification of the status of targeted enterprises

Contractors shall submit completed targeted enterprise declaration affidavits and, where targeting strategy A applies, letters of undertaking to act as subconsultants, subcontractors, suppliers, manufacturers or service providers (see Annex D), with respect to each and every targeted enterprise and targeted partner whose contribution shall be counted towards the contract participation goal. These documents shall, unless otherwise specified in the targeting data, be submitted to the employer's representative before the submission of the first claim for payment.

### 3.2.3 Joint ventures

#### 3.2.3.1 General

Contractors shall develop joint venture agreements with targeted partners in order to fulfil contract participation goal obligations.

Credits towards the achievement of the contract participation goal shall only be granted subject to compliance with the following requirements:

- a) the targeted partner shares in the following aspects of the joint venture in an appropriate and meaningful manner, consistent with reasonable business practices:
  - 1) ownership,
  - 2) control,
  - 3) management responsibilities,
  - 4) risks, and
  - 5) profits,
- b) the targeted partner is responsible for a clearly defined portion of the contract, and
- c) the targeted partner performs part of the defined portion of the contract for which he is responsible, using his own resources or resources hired by him independently of his non-targeted partners.

#### 3.2.3.2 Participation parameter

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The participation parameter shall be equated to the lesser of

- a) the financial value of the contract for which the targeted partner is responsible, and
- b) twice the financial value of the contract which the targeted partner performs using his own resources or resources hired by him independently of his non-targeted partners,

expressed as a fraction of the contract amount or value of the work performed by the joint venture.

**EXAMPLE** If targeted partners within a joint venture have, in total, a participation parameter of 0,15 in a contract with a contract amount of USD 10 million, the targeted partners are responsible for work to the certified value of at least USD 1,5 million ( $0,15 \times \text{USD } 10 \text{ million}$ ). Work to the value of at least USD 750 000 (50 % of USD 1,5 million) is carried out using their own resources or resources hired by them independently of their non-targeted partners.

#### 3.2.3.3 Joint venture disclosure forms

Details of any joint ventures developed with targeted partners shall be disclosed on the joint venture disclosure form (see Annex E) and shall be submitted before the submission of the first payment certificate or as otherwise agreed, in writing, with the employer.

### 3.3 Contract participation goal credits

#### 3.3.1 Granting of credits

Credits towards the contract participation goal shall be granted by converting the value of the following (exclusive of any value added tax or sales tax required by law) to a percentage of the contract amount, as relevant:

- a) the total monetary value of the contributions made by targeted enterprises, other than targeted enterprises who are suppliers, in fulfilling contractual obligations, subject to such targeted enterprises not subcontracting more than 15 % of the value of their contribution to non-targeted enterprises;
- b) 50 % of the expenditure on goods required for the contract, which are obtained from suppliers who are targeted enterprises, subject to such enterprises not subcontracting more than 15 % of the value of their contribution to non-targeted enterprises;
- c) the total monetary value of expenditures made to manufacturers who are targeted enterprises;
- d) the total monetary value with respect to fees or commissions charged by targeted enterprises, which in the opinion of the employer are reasonable, justifiable, and not excessive when compared with fees or commissions normally allowed for similar services, with respect to:
  - 1) the provision of professional, technical or managerial services, including those required for the acquisition of essential personnel, facilities, equipment and goods necessary for the performance of the contract,
  - 2) the delivery of goods required in the performance of the contract (but not the cost of the goods themselves) when the transporter or delivery service is not also the manufacturer or supplier (or both), and
  - 3) the provision of any bonds or insurance policies specifically required for the performance of the contract;
- e) the total monetary value of the contributions made by joint ventures with targeted partners multiplied by the associated participation parameter with respect to each targeted partner, subject to compliance with the requirements of 3.2.3, and the total monetary value of such contributions being halved where such joint venture is a supplier who is not a main contractor; and
- f) in the case of a contractor who is a targeted enterprise, the monetary value of the work performed using his own employees and resources and 10 percent of the value of the subcontracts to non-targeted enterprises.

NOTE 1 The credits calculated in terms of (a) to (e) apply also with respect to non-targeted enterprises engaged by the contractor in the performance of the contract, should such enterprises comply with the relevant requirements. Annex F provides illustrative examples as to how a contractor can fulfil his contract participation goal obligations.

NOTE 2 Where targeted enterprises subcontract more than 15 % of the value of the contribution to non-targeted enterprises, the credits are limited to the actual value of the contributions made by targeted enterprises.

#### 3.3.2 Denial of credits

##### 3.3.2.1 Case 1

No credits shall be granted should the contractor make a direct payment to a supplier, manufacturer or plant hire or lease company on behalf of a targeted enterprise when such payment is recovered by making deductions from payments to the targeted enterprise in connection with the contract; or should the contractor fail to enter into written contractual agreements with the relevant targeted enterprises.

### 3.3.2.2 Case 2

Credits claimed towards the contract participation goal shall be denied where written contractual agreements contain any of the following:

- a) a right to set off in favour of the employing contractor not provided for by law;
- b) authoritarian rights given to the employing contractor or his agent, with no recourse to independent adjudication in the event of a dispute arising;
- c) payment procedures based on a pay-when-paid system;
- d) a dispute resolution process which does not include inexpensive alternative dispute resolution procedures, such as mediation or adjudication, but which only makes use of formal proceedings such as arbitration or litigation; or
- e) conditions which are more onerous than those which exist in the main contract.

Credits shall be denied should targeted enterprises not adhere to statutory labour practices or fail to perform commercially useful functions.

## 4 Compliance with requirements

### 4.1 General

The contractor shall enter into written contractual agreements with all the targeted enterprises and targeted partners cited in the contract participation goal implementation plan and shall, as soon as is practicable, furnish the employer's representative with copies of such agreements and the written acceptances thereof. The contract to be performed by the targeted enterprises and targeted partners shall, in the case of targeting strategy A, thereafter neither be reduced in scope, nor terminated without the prior written approval of the employer's representative, which shall not be unreasonably withheld or delayed.

### 4.2 Substitutions

Where targeting strategy A applies and in the event that, through no fault of the contractor, a contracted targeted enterprise is found to be

- a) unable to perform,
- b) unable to perform on time,
- c) unable to produce acceptable work,
- d) unwilling to perform work required, or
- e) not fit to perform the service;

the contractor shall notify the employer's representative of the apparent necessity to reduce or terminate such a targeted enterprise's contract, citing the reasons therefor.

In the event that the employer approves the contractor's request to be relieved of his obligation to make use of a contracted targeted enterprise, the contractor shall either provide a substitute targeted enterprise to take over the contract, or engage a targeted enterprise on another aspect of the contract so as to secure the required credits to achieve the contract participation goal. The contractor shall, in such circumstances, submit to the employer a targeted enterprise declaration affidavit with respect to the proposed substitute targeted enterprise, and supply details of the nature and value of the contract which shall be performed by such an enterprise.

Contracts with contracted targeted enterprises may only be terminated, and new contracts entered into with substitute targeted enterprises for the purpose of securing credits towards the contract participation goal, with the employer's approval, which shall not be unreasonably withheld. Where the employer approves such substitutions, the contractor shall comply with all the requirements of this part of ISO 10845.

The employer may, at his sole discretion and upon the basis of evidence submitted by the contractor in support of fruitless efforts in good faith to secure substitute targeted enterprise participation, grant a waiver with respect to contract participation goal obligations.

NOTE Subclause 4.2 is only applicable where targeting strategy A applies.

### 4.3 Bona fides of targeted enterprises

Where, in the case of targeting strategy A, an enterprise under contract was initially considered to be a targeted enterprise but is later discovered not to be so, or is found not to be creditable towards contract participation goals, the employer may consider a partial waiver of the contractor's obligations towards the achievement of the contract participation goal with respect to such a targeted enterprise, should the contractor satisfactorily demonstrate that he was justified in believing the enterprise to be a targeted enterprise and that eligibility standards were not violated.

## 5 Records

### 5.1 Submission of documentation

The contractor shall submit all the documentation required in terms of 3.1, 3.2.2, 3.2.3, 4.1 and 4.2 in a timely manner and, together with his programme of activities, a schedule which clearly indicates the expected delivery dates of goods provided by targeted enterprises or the commencement and completion dates of work and services to be performed by all the targeted enterprises engaged on the contract for the purpose of securing credits towards the contract participation goal. This schedule shall be updated by the contractor whenever a change in programme occurs.

### 5.2 Monthly submission of supporting documentation

The contractor shall prepare and submit on a monthly basis to the employer's representative, on or before the date specified in the targeting data and, in a form approved by the employer's representative, the following:

- a) a brief report which describes the commercially useful functions performed by the targeted enterprises and targeted partners in the performance of the contract, both during the interim period and on a cumulative basis; and
- b) a schedule reflecting the estimated total value of the contracts, the cumulative value of the contracts and the value of goods provided or work and services performed (or both) over the period for which payment is claimed with respect to each and every targeted enterprise and targeted partner.

Should random inspections conducted by the employer's representative on targeted enterprise activities indicate that such enterprises are not performing in accordance with the requirements of this part of ISO 10845, the contractor shall provide, in addition to the monthly reporting requirements, separate weekly resource returns and any other relevant information with respect to such targeted enterprises in a format approved by the employer's representative.

### 5.3 Certification of credits

The employer's representative shall certify the value of the credits counted towards the contract participation goal whenever a claim for payment is issued to the employer, and shall notify the contractor of this amount.

#### 5.4 Actions required upon completion of a targeted enterprise's contract with the contractor

The contractor shall, upon completion of each individual targeted enterprise's contract, issue a completion certificate and certify the amount paid to such targeted enterprises. He shall submit the certificates, counter-certified by the relevant targeted enterprises, to the employer's representative for record-keeping purposes. The contractor shall furnish justification to the employer whenever it is not possible to obtain such counter-certification.

### 6 Sanctions

In the event that, and where targeting strategy A applies, the contractor fails to substantiate that any failure to achieve the contract participation goal was due to

- a) quantitative underruns,
- b) the elimination by the employer of items included in the contract participation goal, or
- c) any other reason beyond the contractor's control which may be acceptable to the employer,

the sanctions provided for in the contract shall apply.

NOTE 1 The contract establishes the sanctions that apply. These are set out in a tender evaluation schedule, the scope of work or contract data. Sanctions where tender evaluation points are granted with respect to a tendered CPG or where a minimum CPG is specified (i.e. targeting strategy A) are usually applied in the form of

- a) financial penalties, typically formulated on the difference between the contracted contract participation goal and the contract participation goal achieved in the performance of the contract;
- b) the rejection of claims for payments as being incomplete should the appropriate supporting documentation not be provided; and
- c) the issuing of completion certificates only after the certificates described in 5.4 are received.

NOTE 2 No sanctions in the form of financial penalties are applied where the CPGs are used only to measure and report on the quantum of economic activity generated by a contract for targeted enterprises (i.e. targeting strategy B). The sanction where financial incentives are applied is simply that the incentive is not paid if the target is not attained.