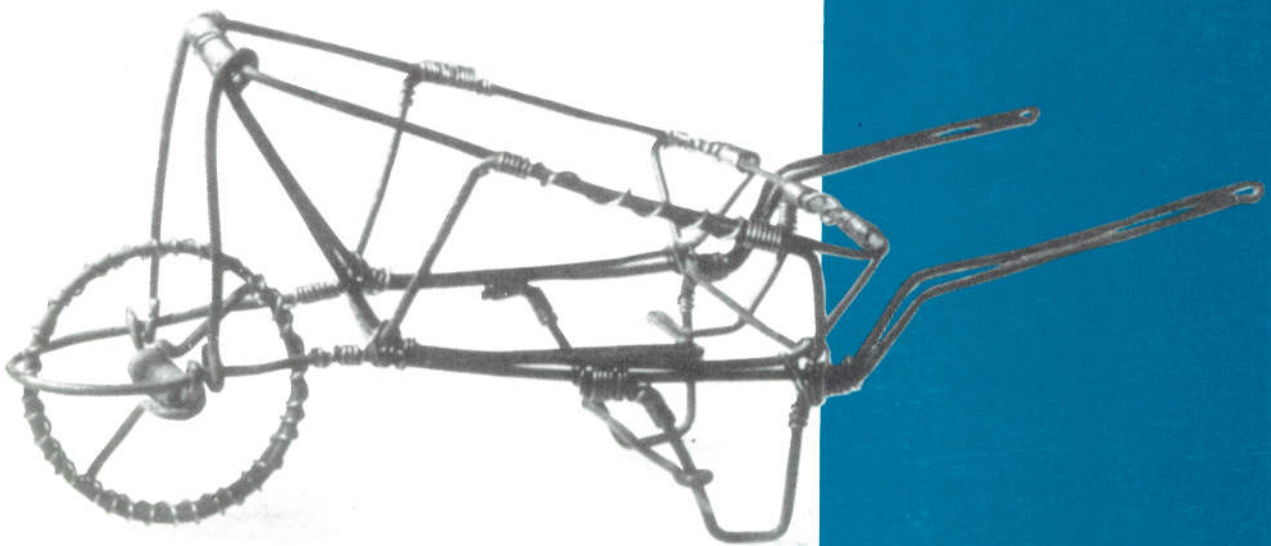


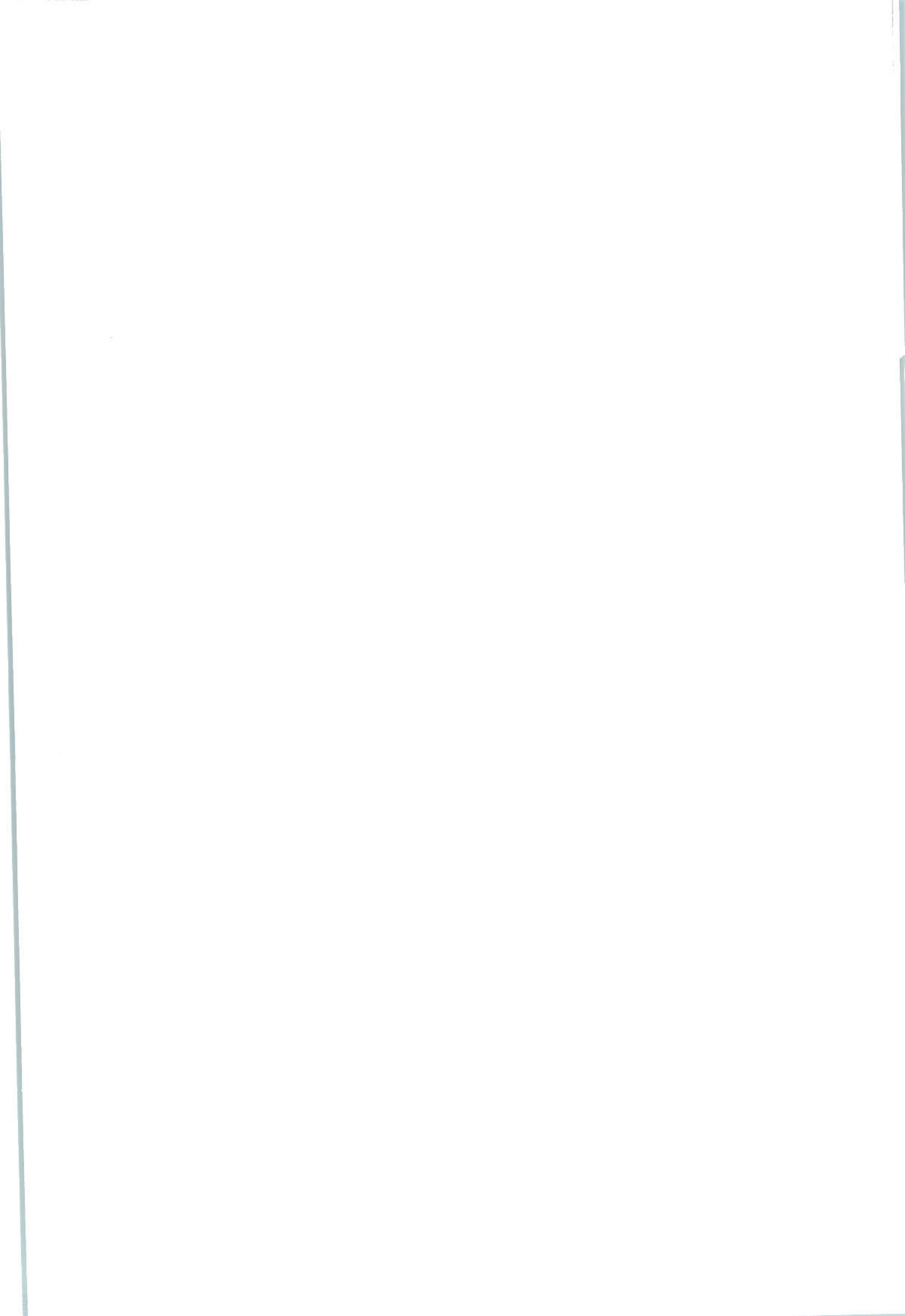
# **Emerging contractor development programme at provincial level**

Construction and  
development

Herbert Atkins  
Chris Milne



Number 13



# Emerging contractor development programme at provincial level

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**Construction and development series**

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## Series preface

Policies and strategies for promoting development in South Africa are arguably as important a product of the Development Bank of Southern Africa as its loan finance and technical assistance programmes. This series of publications on 'Construction and Development' illustrates this point.

Development projects in South Africa have traditionally been undertaken to meet only the physical needs of the recipient community. South Africa's changing social and economic environment demands that such projects are executed in a way that also addresses communities' other needs. To achieve this, projects should be structured so that opportunities for employment and the development of skills and entrepreneurial abilities are maximised.

Construction and maintenance of resultant facilities are an essential part of any growing economy and in South Africa historically an important employer and an industry typifying the overcapitalisation which has bedevilled the economy. These considerations, together with the fact that a large part of DBSA's lending goes to construction projects, suggest that it would be helpful to make practical proposals to assist the industry to adapt and contribute to development in the new circumstances.

The publications in this series present an approach to development that focuses on

- identification of the broad economic and social needs of communities
- optimal use of resources available to them
- ways in which communities can exploit the opportunities presented by development projects
- approaches to making best use of labour – an abundant but underutilised resource
- appropriate design and methods of building and construction
- the use of, and misconceptions about, building regulations
- entrepreneurial development.

The publications are thus designed to help alleviate the constraints which have inhibited poorer communities from developing the skills at both individual and community level that can lead to entrepreneurship and genuine empowerment. This is perhaps the most important message of the series. It is above all through active participation in the process of development that individuals and communities can improve their quality of life. And it is to this end that the series is dedicated.

The Construction and Development series of publications is produced by DBSA staff and consultants contracted to the construction and development policy programme, whose advisory panel has recommended the widespread distribution of these publications to further the human development approach pursued by DBSA.

## **Acknowledgments**

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## **Modifications**

Users and readers are requested to share their comments, recommendations and own experiences. Readers who wish to contribute to further editions should contact the compilers.

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# Foreword

This publication has come about as a result of the initiative taken by the Ministry of Works of the province of Gauteng to set up an emergency contractor development programme in line with the principles of the Reconstruction and Development Programme.

The Ministry convened a provincial Building/Construction Industry Forum to bring together the role-players in an emergency development programme, with the purpose of addressing issues that constrained emerging contractors from participating or fully benefiting from building contracts let by the Ministry.

The Pretoria Metropolitan Builders had been lobbying government for work opportunities and became an active member of the forum, conveying to it the constraints and consequent frustrations of their members. Representatives of financial institutions, the formal sector of the industry, and training providers participated in the deliberations of the forum.

The Development Bank of Southern Africa undertook the role of facilitator and provided the secretariat to the forum and to the steering committee that oversaw the work carried out by teams appointed to address specific tasks.

The publication brings together the contributions made by all those who in one or other way gave their time to participate in the forum, in the steering committee and the task teams. The publication must therefore be acknowledged as the combined effort of the participants.

The publication should serve as a guideline to be adapted to local conditions. The case studies to be undertaken as part of the programme will help to highlight those issues requiring special care and which may not have been identified when initiating the programme.

In the view of the compilers, the general conclusions arrived at are as valid for other provinces wishing to implement an emerging contractor development programme as for Gauteng. The guideline should be complemented by having up-to-date data bases of the emerging contractors in each subregion and by a procurement system that encourages contracting with emerging contractors.

The success of an emerging contractor development programme will ultimately depend on the degree of commitment of all parties involved, as constraints cannot be selectively or partially addressed. Such programmes should become the norm for



Public Works rather than the exception, as they are at present. The long-term view should be that all projects should be explored for their potential for emerging contractor development.



## 1. Background

A considerable body of knowledge has been built up over time about the factors that constrain the performance of emerging contractors and their potential to grow. The analysis and understanding of the problems confronting emerging contractors – gathered by way of workshops, interactions with their associations and directly in work situations – have given DBSA an insight into how to address their needs.

As matters stand, emerging contractors are a distinct group within the industry. Their needs should not be confused with those of established contractors, nor should it be assumed that they constitute a uniform group with common needs. Emerging contractors cover a range of capabilities. At the lowest level, the emerging contractor is an artisan selling his skills, possibly one retrenched from the formal sector, often quite content to earn a living wage without having greater entrepreneurial expectations. At the highest level, the contractor may be an entrepreneur, with a variety of projects and whose only limitations may be financial.

The policies adopted by the Ministry of Works recognise that emerging contractors have a diversity of needs at each level of contracting. Of these,

- some needs are incremental along a growth curve, eg financial
- other needs decrease as the contractor grows, eg technical support.

DBSA was involved as a facilitator and secretariat to the forum convened by the Ministry of Works to set up an emerging contractor development programme for the province. The initiative responded to the concerns that had been voiced by the Pretoria Metropolitan Builders' Forum (PMBF), an emerging contractors' association engaged in lobbying government for employment opportunities for their members.

Towards the end of 1994, DBSA hosted a workshop for the PMBF with the purpose of devising strategies to address the constraints that prevented emerging contractors from getting work from public departments as had been anticipated in the Reconstruction and Development Programme (RDP). The workshop helped PMBF to

- categorise the constraints that affected emerging contractors
- determine actions to overcome constraints.

The debate on constraints led to the understanding that some could be dealt with by the emerging contractors themselves, given the will to do so; others would require dedicated outside support.

The PMBF workshop also contributed to the realisation by the participants that the success of a programme of work for emerging contractors largely depended on the *attitudes* of the various role-players. Experience amply

demonstrated that those with a financial stake (financial institutions; suppliers of materials and equipment) were reluctant to support emerging contractors, because of the actual or perceived risk to themselves, accustomed as they were to conventional methods of procurement. Contracts were usually undertaken by established contractors who assumed *all* the risk, by providing the necessary guarantees and with track records that inspired confidence.

These conditions could not be easily satisfied by emerging contractors, other than by subcontracting to established ones. This route, though, was viewed with suspicion by the emerging contractors because

- established contractors were perceived as having entrenched advantages which effectively denied emerging ones access to work opportunities as contractors
- subcontracting without safeguards often was exploitative since risk was transferred from the main contractor to the subcontractors who in turn might exploit labour to stay in business
- procurement favoured established contractors better able to meet 'customary' conditions of contract
- emerging contractor development leading to growth through the acquisition of greater technical, managerial and business skills was blocked. A circular situation obtained, as without work opportunities the skills needed to qualify for work at a higher level of competency could not be acquired.

In these circumstances, the Ministry of Works decided to convene a forum bringing together all role-players in an effort to openly discuss problems and propose solutions for emerging contractor development. It was recognised that the purpose could only be met through a *programme of projects providing continuity of work opportunities* with the involvement of the relevant role-players. The role-players identified by the forum were

- the *client*: the Ministry of Works (Gauteng). The client was represented by senior head office staff and of the subregions who would be implementing projects
- *emerging contractors*: PMBF members and national bodies
- *financial institutions*: representatives of commercial banks
- *established contractors*: represented by Building Industry Federation of South Africa (BIFSA) and the South African Federation of Civil Engineering Contractors (SAFCEC)
- *training providers* (a 'Database of South African Training and Capacity Building Providers' can be accessed on the Internet Website at: <http://www.web.co.za/Prodder>).

The forum recognised that projects for emerging contractors would involve, as and when required, other role-players such as private consultants, local authorities, regional service councils, trade unions, political organisations, community-based organisations, non-governmental organisations and other interest groups.

Depending on the circumstances of place and the nature of the project, the parties referred to would have to be involved in the actions necessary to promote and support tendering and contracting by emerging contractors. A partial commitment, or one that excluded one or other of the parties with a direct interest in the project, would be a weak link in the implementation of an emerging contractor development programme.

A distinction should be drawn between a housing project and an institutional project such as a new clinic which might limit community involvement to locational and support aspects. The former must involve the community very closely throughout the entire project cycle to ensure that the project is fully understood and that it has the approval of those who will have to live in the houses and pay for the services provided.

The experimental nature of the programme, being the first of its kind in the province, requires that it should be closely monitored for all parties to be able to learn from it. The early warning of problems on projects was considered essential for the success of the programme. Selected case studies of projects would help to familiarise project leaders and others with the methodology used and the variety of situations that had to be addressed.

The socio-economic reality of South Africa, characterised by current and projected high levels of unemployment,

makes contracting of public works with emerging contractors the preferred option to generate local employment and community advancement. The challenge posed by the emerging contractor development programme is to investigate the extent of the viability of the approach and to iron out the difficulties of implementation for the programme to become the *norm* for public works projects rather than the exception. The established contractors have an important role to play, since they are a reservoir of expertise, managerial and organisational skills and of plant and equipment.

An emerging contractor development programme should not be viewed as being isolated from other sectors of the industry, particularly when considering the effects of such a programme on forward and backward linkages. In this regard, it is worth quoting from Spence et al (1993: 29)<sup>1</sup>. With reference to forward linkages these authors state: "Construction is a major producer of fixed capital goods. *In all countries, fifty per cent or more of all new fixed capital formation will take the form of construction works*, including residential and non-residential buildings, roads, airports and harbour, dams and power plants, water and sewerage facilities, land reclamation, irrigation and drainage works."

<sup>1</sup> Spence R, Wells J & Dudley E, 1993. *Jobs from housing: Employment, building materials and enabling strategies for urban development*. Intermediate Technology/Overseas Development Administration.

With reference to backward linkages they state: "Thus it may be concluded that, as a very approximate rule of thumb, *for every job created in the construction industry a further job will materialise in the building materials, trade, transport and services sector*" (p. 31).

A note of warning is sounded (Spence et al, 1993: 35, 36): "Clearly any rapid increase in construction demand, far from bringing benefits, can actually cause harm to fragile economies, in the form of inflation ... The development of an indigenous capacity for production of basic building materials is a most important prerequisite for a much-needed expansion of construction activity.

There is of course something of a paradox here. Construction cannot be expanded (without harm to the economy) unless there is prior development of the building materials industries. Yet the building materials industries cannot be developed or expanded until there is a market for their products. A way out of this dilemma may perhaps be found in a judicious implementation of a two-pronged strategy, comprising measures on both the demand and supply side of housing provision. Measures to expand housing demand might include the facilitation of mortgage finance or the provision of serviced plots, or both. But whatever measures are adopted, they must be accompanied by a strong programme of action to encourage the development of the building materials

sector, as far as possible upon the basis of local resources." Through primarily addressing housing, the conclusions also apply to other building types.

Initially, and in order to start the programme, conventionally designed projects will be looked at to determine their potential for emerging contractor engagement; ideally projects should be designed, specified and tendered for with this purpose in mind. The steps taken are discussed in the sections that follow.

## 2. The contractor development framework

*Emerging contractor* is a blanket description that covers levels of competency defined in terms of contractual obligations that can be assumed by emerging contractors at each level.

*Work opportunities* for emerging contractors result when projects, or parts thereof, are classified according to their competency requirements, and contracts are tendered for and awarded to emerging contractors able to perform at the required levels.

Emerging contractors best develop when working within a *framework* that focuses support on their particular needs. The framework establishes contractual obligations on both the emerging contractors and Works as client.

The framework for contractor

development is intended to put into practice existing policies and develop new ones that relate emerging contractors to the opportunities that could be made available to them, given favourable conditions. The current situation is that emerging contractors are constrained from meeting project requirements.

Compatibility between emerging contractors in a given locality and projects for immediate implementation demands that the *constraints* that hinder or impede their participation will have to be addressed. As matters stand, the constraints fall into two distinct categories:

**(a) Constraints which emerging contractors can do something about**

An emerging contractor can and should do something about acquiring managerial skills. This is an area of responsibility that falls squarely on emerging contractors and their associations; and they must be aware of the limitations of their membership. An emerging contractor graded at a certain level of competency must be able to perform at that level given the necessary control and support. A trade association grading a member at a particular level bears responsibility to the extent that its credibility is at stake.

**(b) Constraints which are beyond their immediate control**

The emerging contractors are unable to address these constraints unaided, for example overcoming an entrenched

procedural system that delays payment. Those processing the payments may not have the same sense of urgency as those charged with implementing an emerging contractor support programme. A certificate passed for payment, for instance, is likely to be one of many being processed by a department. This department may view accelerated processing of cheques as privileged treatment, rather than as an essential project requirement. Any delay will impact on an emerging contractor's ability to meet immediate obligations. The fact that he or she may be due interest if not paid on time does little to relieve an immediate financial constraint. A lack of client flexibility in this regard might jeopardise an otherwise successful programme.

Overcoming constraints relates to the way projects are structured and the effect each constraint can have on an emerging contractor's survival in business. *All* constraints have to be addressed, and some require that decisions be taken by more than one role-player:

- Some can be resolved from within Works, for example, by adapting projects for implementation by emerging contractors.
- Some can be resolved by Works involving the private sector or civil society through, for instance, the funding of training providers.
- Some, such as the granting of waivers, are resolved by Works referring them to the Tender Board.
- Some depend on the private sector taking the necessary actions, for

instance when materials' suppliers grant credit facilities.

The constraints and the need to overcome them have induced Works to adopt a supportive, 'developmental' approach to contracting rather than the harder 'conventional' way of doing things with established contractors.

The framework was initially tested at a workshop attended by Gauteng Works, the PMBF, members of the Industry Forum and DBSA. The workshop reviewed

- criteria to classify projects and contractors in Gauteng
- limitations of the existing tendering procedure and contractual arrangements, and confirmed the need for them to be simplified and redesigned where necessary
- support measures necessary to promote emerging contractors in Gauteng.

Task teams were appointed to address the following issues:

### **Task 1: Project and contractor classification**

Project classification

Emerging contractor classification

Project/contractor matching.

### **Task 2: Contractual arrangements**

This entails determining emerging contractor capacity to tender, contract and perform on site at the various levels.

### **Task 3: Support analysis**

This exercise is intended to help

emerging contractors overcome constraints that inhibit their capacity to tender, contract and perform on site at the various levels.

### **3. Project and contractor classification (Task team 1)**

The classification and matching of projects with contractors in the contractor development framework is intended to satisfy developmental objectives by

- the delivery of physical assets (in common with conventional projects)
- the development of a human resource, that is the emerging contractors
- the creation of direct and indirect employment opportunities for local communities with consequent spin-offs
- the training and capacity building of the emerging contractors and their labour
- exposing professionals and others in the public and private sectors to the requirements of emerging contractor development programmes

Other objectives are also satisfied, such as the less tangible long-term benefits of

- the promotion of leadership, self-esteem and confidence building within the emerging contractors and the local community
- the demonstration effect of a successful project as a model for other communities
- satisfying genuine expectations and helping to set attainable ones for the future
- developing an entrepreneurial culture



- inducing financial institutions and suppliers to play a more supportive role by demonstrating the viability of emerging contractors working within the parameters of the framework
- Works being perceived as a vehicle for development by emerging contractors, local communities, government departments and civil society at large (professions, trade associations, the media, political and civic organisations and others)
- meeting national government objectives (RDP).

The developmental objectives are complementary to each other since the creation of physical assets employing emerging contractors generates a demand for local resources. These resources are the ones most readily available for use by emerging contractors and, in turn, are a source of much needed local employment. Developmental projects focus primarily on one or other aspect of development, the emerging contractors in this instance, but the effects are felt throughout the immediate community and beyond.

### **3.1 Project classification**

For the immediate term, Works' budget items will have to be scrutinised for projects with potential for inclusion in an emerging contractor development programme. Longer-term needs will have to be addressed through the design process of the projects.

#### **3.1.1 Classification principles**

Classification principles relate to the

following projects.

*Labour-based projects:* It is recognised that local skills are an immediately accessible human resource. Emerging contractors are better placed than others to know the skills that are available in the community. Both the emerging contractor and the local labour are also part of the local community and therefore the beneficiaries of the physical facility being provided. Their dual roles help to promote a sense of community ownership of the project.

*Projects capable of subdivision:* In order to match work opportunities with contractors, projects will have to be subdivided into smaller units capable of being handled by the emerging contractor employing local labour. (See Attachment 1: Subdivision of projects.) The project leader will have to decide which type of subdivision best matches the project to the local circumstances as determined by the contractors, the labour force and the capacity to control and provide support.

*Management and delivery:* The capabilities of the emerging contractors will determine the management options best suited to their needs. (See Section 3.3.1.)

*Design considerations:* These relate project design to the capabilities of the emerging contractors. Care should be taken to ensure that what is asked for is understood and can be delivered by the emerging contractor.

### 3.1.2 Inhibiting factors

Inhibiting factors to be considered in classifying projects for emerging contractors are as follows:

*Complexity and quality constraints:*

Projects may demand one or more of the following:

- Very strict tolerances
- High standards of assembly or finish
- Complicated details
- Unusual technology
- Exceptionally high levels of skills or craftsmanship.

*Locational constraints,* eg remote locations, posing problems of accessibility and supply for the emerging contractors and of supervision and support for Works.

*Time constraints,* eg, very short completion time or a delay on a critical path with cost implications for others (knock-on effect).

*Work continuity constraints:* A very important aspect of an emerging contractor development programme is ensuring *continuity of work opportunities* so as not to lose the initial momentum. Spacing projects is important, as an oversupply of work in a short period is likely to strain local resources by creating expectations and expanding the number of emerging contractors active in the area to a level not sustainable once the initial contracts are completed. By spacing the projects over a longer period, local contractors will be better able to consolidate their position, local labour will be employed

longer and project support will be more focused and less costly.

Emerging contractors should enjoy a degree of mobility, as it cannot be expected that work within a given community will meet the needs of all the contractors operating there. This is particularly relevant when communities engage in 'closed shop' practices intended to exclude 'outsiders'.

These considerations raise questions about

- the sustainable size of the sector over the longer term
- the institutional arrangements necessary to guarantee the free movement of contractors
- the acceptance by the public and private sectors of implementing projects using emerging contractors, given the necessary safeguards of control and support.

### 3.1.3 Linkages

A programme comprising several projects can have a considerable impact on the local economy. For example, a block-making operation set up to supply concrete blocks to a developmental building project may become self-sustaining after the completion of the programme. Such an undertaking could possibly grow if there should be a demand for paving blocks and a variety of concrete products such as culverts, kerbs and manholes used in the building and civil engineering industries. The same reasoning would apply to metalwork, such as the manufacture of window and door frames, security bars and wire fencing.

These linkages should not be overlooked when considering the impact an emerging contractor development programme can have on the local community. The emerging contractor as a local entrepreneur may perceive the manufacture and supply of building materials as a profitable sideline during slack periods. In this, the local person would be emulating many established contractors.

### 3.2 Contractor classification

The first step in classifying an emerging contractor is to set benchmarks that reflect capacity to do project work, either as an independent contractor or as a specialist subcontractor to a main contractor.

The benchmarks have been formulated by Works to suit the particular needs of projects identified for emerging contractor participation. The values indicated in Table 1 are cost estimates, not tender prices.

The civil engineering industry has other benchmarks but the principles applied are the same. The benchmarks are a composite of needs emerging contractors experience as they progress in the industry. If one level of needs are not met, the emerging contractor cannot reach the next benchmark and may even have to retreat from the one he or she is at present.

To grow as an entrepreneur in the building industry, the emerging contractor has to combine the following attributes:

- managerial ability
- technical competency
- business acumen
- financial standing.

Shortfalls in any of these attributes constitute constraints which, if not addressed, will impede development.

*Managerial ability* and *technical competency*, if lacking, are constraints which the emerging entrepreneur can address by attending contractor support programmes intended to improve performance. These should be facilitated by Works or by the local trade association. (Facilitation in this context should not be understood as providing an absolutely free service.) Emerging contractors will have to appreciate that limitations in these areas will curtail their potential to grow. The lower the level of competency, the greater the need for technical support. At the higher levels, as the contractor progresses along the entrepreneurial path, managerial competency will become the greater need.

*Business acumen*, the essence of entrepreneurial success, is about evaluating risk and being aware of the wider market and its opportunities. It can be encouraged but ultimately the responsibility for the success of the business must rest with the entrepreneur. At the lower levels many emerging contractors have been retrenched from the formal sector and are mainly interested in securing a steady income in substitution of the wage previously earned. Their long-term aim,

**Table 1: Levels of emerging contractors in the building industry**

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**Level 1: Trade skills***Value of work: R 10 000 to R 20 000*

Obtains piecework using a trade skill (artisan status)

Quotes estimates based on time

Does not employ workers

Materials list supplied by the client.

**Level 2: Labour only subcontractor***Value of work: R20 000 to R50 000*

Employed by a main contractor on larger contracts

Practises own trade skill and employs workers

Material supplied by main contractor.

**Level 3: Labour only contractor***Value of work: R50 000 to R100 000*

Does not subcontract but would contract directly on small contracts

Manages all trades, employs workers but does not supply material

Can also employ subcontractors

Would be required to estimate/tender for labour component

Could be required to estimate quantity of material.

**Level 4: Small contractor***Value of work: R100 000 to R300 000*

Operates for own account and supplies labour and materials

Estimates off working drawings/specifications

Manages one or more contracts, employs subcontractors

Tendering would be required but usually excludes bills of quantities.

**Level 5: Medium contractor***Value of work: R300 000 to R500 000*

Tenders on the open market using a bill of quantities and specifications for domestic and commercial work

Interacts with professional team

Employs own workers and subcontractors

Own employees could include a foreman

Could have own office but is more likely to operate from site office.

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circumstances permitting, might be to resume employment in formal sector.

*Financial standing* is often perceived by emerging contractors as the only real need impeding or delaying progress. This perception is largely due to the many contractual situations that directly or indirectly hinge on money matters.

The established contractor has sufficient capital or access to credit to bridge the period between start-up on site and the first payment.

The costs that have to be incurred – some even before start-up on site – can be considerable, particularly for an emerging contractor with scant resources and no credit. The obligations include

- performance guarantees
- all risk insurance
- workers' compensation
- site establishment costs
- purchase of material
- purchase of equipment
- payment of levies
- performance guarantees
- wages, prior to first certificate
- administrative costs, prior to first certificate
- personal living expenses, prior to first certificate.

Questions arise as to

- which costs, ultimately to be borne in any event by the client (Works), could be paid directly, rather than as add-ons to be claimed by the emerging contractor
- which costs will ultimately be borne by the client on condition that the

work is satisfactory

- which costs will not be borne by the client other than by the project being the source of an emerging contractor's income, a profit margin being an important outcome.

From the emerging contractor's point of view all expenditures and calls on limited resources up to the payment of the first certificate, have to be met at a time when the project cash flow is not receiving input.

The client (Works) could undertake to provide for the *first* category of costs, that is for guarantees and insurance. Works would be able to negotiate a better price as the overall volume of work regularly commissioned is attractive to insurers.

The *second* category of costs involves the purchase of materials and equipment, and credit and overdraft facilities. Works could guarantee direct payment to creditors from certificates as they are paid. These arrangements will do much to allay fears, whether founded or not, financial institutions and suppliers may have regarding payment. Furthermore, interest rates on amounts outstanding are likely to be less onerous with such arrangements.

Regarding the *third* category of costs, that is those subject to the emerging contractor's performance and profit-making, Works should streamline internal administrative procedures to ensure that certificates are frequently prepared and promptly paid.

### 3.3 Project/contractor matching

The matching exercise relates opportunities, as identified by Works, to the particular mix of emerging contractors in each subregion. How projects are broken down is important for the flexibility the project leader needs to match projects with contractors.

#### 3.3.1 Managerial options

Following from the contractor classification, the next step is to establish the managerial option best suited to each level of contracting. Levels one and two will need closer supervision and support than a person at level five who is about to become an established contractor. However, the risk element is greater at the higher levels as some managerial options are more costly than others. This factor will have to be taken into account when considering the contractual arrangements.

The managerial options are as follows:

- *Demonstration/pilot projects* intended to test approaches and develop appropriate procedures and documentation. The project will have to be closely supervised and monitored.
- *Training contracts* with an established contractor or project managers (in-house or external consultant) responsible for training local people in technical, managerial and business skills, equipping them to execute future phases and to operate and maintain current phases.
- *Management contracts* where large

projects are subdivided for small local contractors who are given the full range of support services and are subject to controls to ensure success.

- *Small contracts* to be executed by small contractors with the usual support and control mechanisms in place.
- *Combination projects* combining the above options as required by circumstances.
- *Conventional contracts* in which an established contractor undertakes as many areas of the work as possible using local subcontractors and labour. This option gives the main contractor the responsibility of managing the local subcontractors. Established contractors are likely to find this option attractive when undertaking work with the private sector since they will have assessed the capabilities of the emerging contractors.

#### 3.3.2 Financial requirements

Table 2 details under each of the five levels of contracting the range of the contract amounts, and the actions required with regard to the financial items listed. The requirements highlight the role of the project leader, manager or consultant who frequently checks progress to ensure that an emerging contractor's performance stays within the parameters set by the contractor development framework.

Other statutory obligations to be investigated are medical aid, PAYE (pay as you earn), pension and holiday.

**Table 2: Financial requirements**

Levels	1	2	3	4	5
Size and scope (in Rands)	10 000	20 000	50 000	100 000	300 000
	20 000	50 000	100 000	300 000	500 000
Credit	Progress	Monitoring	→		
Asset base	Progress	Monitoring	→		
Guarantees	Waived	→		Norm	→
Risk insurance	Taken by principal		→	Norm	→
Bridging finance	Not the Department's responsibility				
Income tax	Not the Department's responsibility				
Value added tax	Over R250 000 pa				
Retention	According to the contract terms				
Workers' compensation	Nil	Norm	→		

#### 4. Contractual arrangements (Task team 2)

The word *emerging*, when applied to contractors, implies that they are subject to a set of constraints at each level of operation. The contractual aspects of emerging contractor development refer to conditions that have to be addressed for them to

- understand the scope of the work and the tender documentation
- cost the work to be done
- be aware of contractual risks
- be aware of the control and support mechanisms
- perform on site
- consolidate and grow.

##### 4.1 Tendering

The programme will have to ensure that the call for tenders is

- broadly advertised in the local media

(press and radio) and through the local trade association, should there be one

- clear about the intended target group
- clear about exclusions, should there be any
- clear about preferences, should there be any
- clear about the adjudication and appeals procedures
- seen to be an open process.

The project leader or manager will have to review projects with the contractors prior to tendering and be available for consultation during the process.

Some contractors, particularly those at the lower levels, may have difficulty with language and consequently in understanding the scope of work and the tendering procedures. These

problems should be identified and clarified by the project leader or manager at the review session with the contractors *before* tenders are submitted. The local trade association has a role in ensuring that contractors understand what is expected of them.

The consequences of conventional contractual conditions should be explained to the emerging contractors since they have financial implications. Some of these conditions might be waived by Works to facilitate emerging contractor participation.

#### 4.2 Form of contract

The form of contract establishes the legal framework for the project. Currently the contracts are for a lump sum with or without bills of quantities. As mentioned, Works can waive conditions in the interest of promoting emerging contractors. Table 2 lists conventional contract conditions waived or paid for directly by Works in an effort to ease the financial burden on emerging contractors. The waiver or the amendment of retention clauses will have to be reviewed by the Gauteng Provincial Tender Board. A good case can be made out for waiving or drastically modifying the retention clause on *labour only contracts*, as demonstrated in the example that follows.

The question arises whether the R900 – the payment of the first certificate less retention (repeated five times) to build up the retention fund – will allow the

Labour only contract to the value of	R10 000
Retention, 5% of value of contract	R500
Assume first certificate and subsequent ones are for	R1000
Retention on certificates 10% of value, ie R100 (up to a total of R500)	
Amount received by contractor from first certificate: R1000 less R100	R900

contractor to meet all project-related expenditures. Too keen a price will prevent a contractor from meeting project commitments. It is worth noting that rejected work – the eventuality the retention fund is set up to remedy – could be due to the fault of others, for example inferior material supplied. The contractor would be responsible for bringing to the attention of the supervisor any such defect, if it were self-evident. However, a labour only emerging contractor normally would have a limited knowledge of defective materials or of less obvious technical problems, for instance when a concrete slab is cast on a very cold day, without taking the necessary precautions.

The foregoing discussion highlights practical issues surrounding emerging contractor development. Conflicts of responsibility might arise during project implementation regarding effective *control* to anticipate and limit damage before it got out of hand and providing the necessary *support* to help the contractor fulfil his contractual obligations. However, the control exercised by Works is *not* intended to dilute or transfer responsibility from the contractor.



The use of the retention fund should be seen only as a last resort. Its use would be an admission of a lack of control, either because of the contractor's credentials being less than adequate for the job, or because of negligent 'on site' supervision. Control and the support to overcome an emerging contractor's limitations constitute the difference between contracting with emerging and established contractors.

The legal implications for the contracting parties will have to be examined, particularly in regard to the project support Works will undertake to provide as a result of the need for control. Questions may arise, such as: What if a contractor is willing to attend training but the support is not provided, or if provided, is inadequate? In terms of the contract, how would this reflect on Works, the training provider and the contractor, and in what measure? It is not suggested that training will automatically result in an improved performance – that must always remain the contractor's responsibility. However, given the developmental intention of the project or programme, there is an obligation on Works to detail the support services to be provided, as and when needed. The revised tender and contract documentation will have to address these issues for each contract level. The programme should serve to identify, monitor and test points of possible conflict. Case studies and evaluation at the end of the programme would be of benefit.

The need for strict control is also

reinforced by the practical impossibility of applying penalty clauses in the event of non-compliance by the lower levels of emerging contractors. Penalties would probably put an emerging contractor out of business, in effect nullifying the purpose of the programme. This developmental concern with the survival and prosperity of the emerging contractors conditions what Works would otherwise do to safeguard its financial interests.

Works should establish a window of opportunity for each emerging contractor in a programme. The contractors participating at one time will have a limited number of work opportunities in which to make an agreed grade; the exact number will depend on the existing level and on the one the contractor hopes to reach. As each successive project has to be separately tendered for, the project leader will have to evaluate a contractor's past performance and *only* if it is satisfactory, should he or she be invited to continue tendering for programme work. The underlying assumption is that work will be available after a first project is completed, thus highlighting the importance of designing programmes to achieve continuity of work for the target group.

Decisions will have to be taken, in the light of the developmental intentions of the programme, whether tenders should be open to all emerging contractors, or only to those in the subregion or in a given area. It must also be decided what

preferences, if any, should be given to contractors already in the programme and who have demonstrated their capability to benefit from it. It is not possible to set hard and fast rules; circumstances will dictate the choices to be made. Given this flexibility, it is important that the reasons for one or other choice be understood by all parties, anticipating a cry of favouritism from those excluded.

From the start, the emerging contractors will have to be made aware of the limitations of the programme as a source of permanent employment. Their future in the industry will depend on their ability to get other work in the public and private sectors. *Graduating* from the programme, though, should be seen as a mark of competence, a significant contribution to a credible track record and the achievement of goodwill. The goodwill of the community will be of value to an emerging contractor, particularly one intending to continue working in the area. Meeting financial obligations through the prompt payment of labour and suppliers during the project period will be important factors – and this can only happen if certificates are processed and paid without delay.

For the longer term, changes in the form of contract should be informed by the conclusions of the National Procurement Forum, and the Green Paper on the subject currently being prepared.

A variety of forms of contract are in use

and are promoted by such institutions as Building Industry Federation of South Africa (BIFSA) and New Engineering Contract (NEC).

The form of contract finally adopted by Works for the various levels of contracting will have to be scrutinised by the Tender Board to ensure that its conditions are enforceable and within the Act.

### 4.3 Documentation

Building contracts include the following technical documentation: drawings, specifications, and one or other of the following: a materials' list, resource bill or bill of quantities.

These are supportive documents to the contract and the easiest to modify in order to bring about change. Each level of contracting should have its technical documentation adapted to the requirements of emerging contractors tendering at that level:

- At the lower level the contractor can only work from a *list of materials*.
- At the intermediate level a *resource bill* that breaks down cost components into labour and materials is a more useful document.
- At the higher levels the contractor is expected to price from a *bill of quantities*.

A contractor aspiring to quote for a project demanding higher levels of competence than required by his or her contractor classification will have to be carefully appraised beforehand. The

local trade association should be an important source of advice and support in these circumstances.

#### 4.4 Control

The supervisory function on *conventional* projects involves the project leader or consultant periodically having to

- record progress of work on site
- measure work done
- control quality of work done
- prepare certificates
- authorise payments.

The control and monitoring of *developmental* projects done by emerging contractors extend the project leader's supervisory and assessment functions to include the following:

- More frequent site supervision – on a daily basis, if necessary
- 'Ongoing' assessment of the contractor's technical, managerial and business performance on site (to determine actual project support needs)
- Assessment of the project support provided, as reflected in the emerging contractor's performance (Is there an improvement or should the support be provided in other ways?)
- Assessment of the contractor's development during the project or programme cycle (Has the contractor's grading been confirmed or reassessed?)
- Assessment of the developmental impact of the project or programme on the community in terms of jobs

created (permanent and temporary), people trained (in what skills and at what cost), and other tangible and less tangible spin-offs attributable to the programme

- Appraisal and projections of a long-term emerging contractor development programme for the subregion (What should be done to ensure that development and skills are not lost or dispersed once the short-term programme is completed?)
- Dissemination of the principles – each project constitutes a separate case study.

Emerging contractor control requires greater project input of time, with the consequent cost.

As the emerging contractors grow in confidence and resources, the need for frequent control diminishes. They must be agreeable to their technical, managerial and business performances being regularly assessed; some might interpret this as an invasion of privacy though it is intended to benefit them as much as the project.

The trade association has a role to play in convincing its members of the merits of frequent control and performance assessments. By workshopping the principles with the trade association or directly with the local contractors *before* the contracts are awarded, the contractors would gain a practical understanding of the system. They should have the opportunity to clarify any doubts they may have about the way

projects are to be implemented. All emerging contractors tendering for work would have to record their understanding and acceptance of the rules.

An evaluation of the development achieved will only be possible at the end of the programme and should be done by an external agency. Initially, and until the project leader, project manager or consultant and the emerging contractors fully understand and are comfortable with the practical application of the framework, there will be a learning process which will apply to *all* participants. Subsequent projects will be easier to implement once the framework is accepted as the normal way of working with emerging contractors.

Participants should not lose sight of the developmental purpose and that the tangible outcomes of the programme will have to be *measured* and the less tangible ones *assessed* to establish the success or otherwise of the programme. The exercise should be of interest to all the participants, particularly with regard to the effect project control and support may have in reducing risk as currently perceived by financial institutions and suppliers.

By closely monitoring the programme the financial institutions, insurers, suppliers and – through the media – other institutions and the public at large, will be able to judge the effect of dedicated control and support on the performance and viability of emerging

contractors. Initially the contractors will be working within the parameters of the development framework but ultimately, as contractors in their own right.

## **5. Support analysis (Task team 3)**

Support should be viewed as the measures necessary to overcome the constraints emerging contractors have to contend with. At project level the support requirements will be determined by the interaction between the project leader, manager or consultant and the emerging contractors, *before* and *during* project implementation.

### **5.1 Organisational support**

The long-established trade organisations in the construction industry are often viewed with suspicion by the emerging contractors for historical reasons and because they represent the interests of established contractors.

The emerging contractors are in the process of organising themselves to ‘speak with one voice’ on the many issues that constrain their development in the industry. Their main concerns are

- getting work opportunities to survive in the industry
- addressing constraints
- building up capacity to perform and deliver
- getting more rewarding work opportunities in keeping with their increased capacity to perform

- organising themselves into effective trade associations
- setting up accreditation mechanisms that will lend credibility to them.

## 5.2 Support programme

Support should be available to all emerging entrepreneurs and not be directly linked to a particular project or client. Since their needs are similar, whatever their line of business, support should be *ongoing* and *accessible*. At the time of writing, a national support programme was being considered. Such a programme would be implemented at provincial and local level.

In the interim period, and until the national support programme is in place, accessible support will have to be programme and project specific. This approach will have cost implications which must be taken into account. The areas in need of support are finance, training and marketing.

The obligations entered into by the contracting parties about control and support are discussed in Section 4.2.

### 5.2.1 Finance

This need is often perceived by emerging entrepreneurs as the *only real need*. Table 2 lists, for instance, the obligations and expenditures an emerging contractor has to meet in the bridging period between the award of contract and the payment of the first certificate.

Finance for working capital and

equipment is likely to be a longer-term requirement which will depend on the emerging contractor's volume of work and past performance. Works could facilitate the arrangements that may be entered into by an emerging contractor and a supplier or financial institution regarding direct payment from money due to the contractor. Project funds would be secure and the volume of work in the programme would be attractive to the supplier in view of the volume of the operation.

### 5.2.2 Training

The training of emerging contractors is intended to improve their technical expertise, management ability and business understanding. (These needs are discussed in Section 3.2 as the attributes of the entrepreneur.)

As some areas are better served than others, it cannot be assumed that the training needs of emerging contractors can be met by qualified trainers regardless of location. Consequently, the unit cost of the support varies in different areas. As a matter of principle, the person or institution providing training – if paid separately for it – should not assess the training needs, as this would result in a conflict of interests. However, this would not apply to an 'in-house' trainer since it would be part of his or her normal work.

### 5.2.3 Marketing

Over time, established contractors build up a track record and goodwill; these are the assets to market their services.

The image they try to convey is one of

- competency (technical and managerial skills)
- reliability (acknowledged reputation)
- integrity (providing value for money)
- permanency (established in the market place)
- solvency (having assets).

In a highly competitive environment the emerging contractor without a track record would be at a disadvantage. The trade association can help to redress this situation by

- constituting itself into a legal entity
- promoting a code of conduct for its members
- guaranteeing the quality of the work of its members
- policing the work of members
- advertising the role of the association and the capabilities of members
- facilitating access to training courses
- disseminating information on work opportunities and trade news
- providing legal and professional support
- lobbying for work (eg, PMBF with Works)
- linking up with trade organisations active at the national level
- interacting with the formal and established sector of the industry.

The foregoing activities can only occur if the emerging contractors in a given area can workshop their grievances and nominate people to represent their interests and report back to them. This process entails expenditure on such items as a secretariat, the hiring of venues and other incidental expenses,

which will require financial support.

### 5.3 Project support

This is support intended to address the limitations of emerging contractors on a specific project in a subregion. It concerns

- contractor classification
- the assessment of the target group (done by the project leader, manager or consultant)
- the control mechanism which, once the project is being implemented, will provide a good indication of the training and capacity-building requirements of the emerging contractors.

The training and capacity building of emerging contractors is best done by qualified trainers, rather than by others who, even though academically qualified, may lack the teaching requirements to carry out an effective programme.

Training and capacity building can be done in advance in anticipation of a project, or during the project cycle in recognition of limitations that have to be overcome.

Some technical training is best done on site as an extension of normal work. Other training particularly in regard to pricing, tendering and the managerial aspects of contracting, is better done in a classroom environment.

An important aspect of training is that it should conform to a modular system

which allows a person to complete one module and then to have access to a more advanced module within a chosen career path. At whatever level, training should be within a recognised career path within the industry. Recognition of accomplishment should be given at the end of each module.

#### 5.4 Support providers

There are a number of support providers, each with a particular market segment to service. The *Database of South African training and capacity-building providers* (April 1996), disseminated by DBSA/HSRC/Internet Solution, provides a comprehensive list of training providers active in Gauteng.

Some providers are supported by the formal sector of the industry as, for example, the Building Industry Training Scheme (BITS). Others are private sector initiatives, as are private consultants providing training for a fee (eg Promatra).

Government funds the Small Business Development Corporation (SBDC) in support of small entrepreneurs.

Non-profit section 21 companies are represented by institutions such as Entrepreneurial Development Southern Africa (EDSA) that provides training services and bridging finance.

Commercial banks and other financial institutions could play a more active role in providing finance, if persuaded that their funding would not be at risk.

Risk is often a matter of perception and this may require a change of attitude. The programme evaluation referred to in Section 4.4 will help to clarify many of these issues.

The trade associations representing emerging contractors can do much to change perceptions by, for example, proactively adopting a code of practice and strict self-policing principles.

#### 5.5 Support funding

The sources of support funding will have to be investigated, in particular the criteria to be satisfied to access them. The following are some of the institutions and programmes to be investigated:

- Reconstruction and Development Programme (RDP)
- Independent Development Trust (IDT)
- Ntsika Enterprise Promotion Agency (NEPA)
- Khula Enterprise Finance
- Small Business Development Agency (SBDA)
- Commercial banks.

#### 5.6 Statutory requirements

There are various charges that contractors have to pay and which have to be determined for each level of contracting and the service provided. It also has to be determined what Works' responsibility is to ensure payment. Listed below are some of the charges that relate to the Building Industry Training Scheme (BITS), the Civil

Engineering Institute Training Scheme (CEITS) and the Industrial Council.

Evaluation is a critical component of the project cycle in order to ascertain whether the control and support functions have been successful in developing emerging contractors. An emerging contractor development programme at provincial level is a relatively untried undertaking which will have to be tested in practice. Though the principles have gained general acceptance, practical experience by way of selected case studies will do much to clarify how best to deal with the less obvious problems.

In this respect community involvement would appear to require careful consideration particularly with regard to such aspects as

- ownership of the project
- relationship between emerging contractors and the communities
- selection of labour – should it be left entirely to the emerging contractor or is there a community responsibility?
- labour training needs and who should be selected to attend training courses.

There is not likely to be a single answer to the above issues. Much will depend on the location and on how the local community is organised.

What is certain is that there will be a variety of ‘solutions’ in keeping with local circumstances.

## 6. Implementation guidelines<sup>2</sup> for project leaders

### 6.1 Programme preparation

The project leader having to implement the emerging contractor development programme in a subregion, will have to carry out a series of preliminary investigations in order to gain an understanding of the targeted community. This exercise will be a *social assessment* of the community. ‘Community’ in the present context refers to those people who together are directly or indirectly affected by an intended project.<sup>3</sup>

A *community needs analysis* will have to be done to ensure that projects meet needs that are recognised as such by the community. The community will thus be encouraged to ‘buy into’ a project, perceiving it as theirs and not as something identified by others, however good the intentions. This aspect is particularly important if the community will be expected to pay for maintenance and other costs associated with the project. Perceptions of ownership are important if confrontations and possible boycotts are to be avoided.

<sup>2</sup> The principles applied in the guidelines are those developed in the publications: Socio-economic enhancement of development projects and Guideline for emerging contractor development of the DBSA’s Construction and Development series, subsequently workshopped in the Department, with representative sectors of the building industry.

<sup>3</sup> See *Report of the training and capacity-building focus group prepared for the National Economic Forum, Technical Committee on a Public Works Programme*, May 1994.



If the project (see Section 3.1) has been identified by others with limited community involvement, then the project leader would do well to advertise the purpose of the project for the community to be aware of it *before* the call for tenders. Community leaders may yet come forward with suggestions which could be of benefit to the project and would give it a stamp of community approval.

As part of the preliminary investigations the project leader will have to do a *local resources (supply) analysis* in order to assess what is available in the community; particularly when analysing resources which are or could be accessible to emerging contractors for project work, given favourable conditions.

Many local communities and their emerging contractors are disadvantaged in that access to resources, as identified in the resources analysis, too often is limited or impeded. The project leader will have to carry out a *constraints analysis* to ascertain what the constraints on access to resources are. This exercise will involve interaction with the emerging contractors directly or through their association.

The *support analysis* is intended to identify elements which, if in place, would allow the emerging contractors to overcome constraints identified in the constraints analysis. The project leader will have to explain to the emerging contractors directly, or through their association should there

be one, the support elements that will be included in projects for their benefit. The support provided will address the specific needs of emerging contractors according to their level of development as established in the contractor classification detailed in Section 3.2.

The province of Gauteng is in the process of performing the above functions but will require frequent input from the subregions to update and upgrade the data banks; the information thus provided will either ratify or rectify what is recorded. This will help provide accurate information about the performance of the emerging contractors. The project leader's assessment of the performance of the contractors on each successive project of a programme will further refine the information. Finally, the project evaluation exercise will confirm the validity of the data in the data bank by recording the performance of individual contractors.

## 6.2 Planning and implementation

Since Works has already identified projects or components thereof for inclusion in its contractor development programme, it must be assumed that part, if not all, of the *integrated project planning* will have been done. If possible, the projects should be reviewed with the purpose of involving the communities, as outlined in Section 6.1 above.

The project leader will have to bear in mind the developmental purpose of the

programme when selecting *project criteria*. Whereas conventional projects are designed, tendered for and managed without regard to the involvement of emerging contractors other than as normal subcontractors, projects intended for implementation by emerging contractors have specific objectives that must be met:

- Delivery of physical assets (in common with conventional projects)
- Development of a human resource (the emerging contractors)
- Creation of direct and indirect employment opportunities for local communities with consequent spin-offs
- Training and capacity building of the emerging contractors and their labour.

The last three objectives deal with human resource development, funding for which should not be viewed as coming from the same budget allocation as the physical asset. The project is the vehicle for development but funds from other sources (eg, the RDP) should be available for training and capacity-building objectives.

The project leader will have to review the projects (or parts thereof) previously identified for emerging contractor involvement, in order to formulate *project proposals*. These will have to take account of the complexity of the projects and the urgency with which they are required.

The project leader will then have the task of matching project-related work

opportunities to the specific levels of contracting available in a particular subregion. The *project design* selected for implementation should be the one that best matches the capabilities of emerging contractors in the subregion with project work opportunities on offer.

The backward and forward linkages of such work, for example the manufacture and supply of materials and the maintenance of the facilities once built, should not be overlooked. The strength of the linkages will impact on the community by way of the employment potential of the projects which, in turn, will reflect on the attitude of the community towards the project. (See Section 3.1.3.)

The next step is to establish the *project management alternative* that best meets the needs of the project in terms of the levels of emerging contractors selected for the work. The project leader will have assessed the general levels of contracting, not necessarily relying on the contractor classification. This is because the classification might initially not be a true reflection of existing capabilities as these will only be demonstrated once the contractor is performing on site. The levels of contracting in a subregion will determine the management options that best encourage emerging contractors to acquire the range of skills (technical, administrative and business) needed to grow. All too often subcontracting limits an emerging contractor's exposure to the business environment.

(The project management options are discussed in Section 3.3.1.)

*Procurement procedures* can constitute a stumbling block for the emerging contractors. Each level of contracting will require its own set of documentation, specifications and instructions. For instance, a level 5 emerging contractor, as defined by the contractor classification, should be comfortable working from a bill of quantities; a level 3 contractor would require a resource bill, whereas a level 1 contractor would need a list of materials.

Before tendering, the project leader, the project manager or the consultant assigned to the project will have to explain in detail to the emerging contractors the scope of the work required of them, the documentation to be submitted with their tenders, and the duties and responsibilities they will have if their tenders are accepted. The project leader will have to be satisfied that the emerging contractors on a project are fully aware of all the risks they will be assuming. Furthermore, they should be informed of the standard tendering conditions Works would be prepared to waive or modify in an effort to overcome bridging finance constraints.

Care should be exercised to ensure that bids are 'reasonable', that is, if the work is carefully managed, the emerging contractor should make a profit. Too keen a price, without a contingency allowance, will increase

the emerging contractor's risk. It should be borne in mind that these contractors are not likely to have financial reserves to fall back on in the event of an unforeseen mishap. Contractor development implies that there will be a profit to show which, with continuity of work, would go towards alleviating the bridging finance for the next project. Without continuity of work profits will soon be consumed and the intended growth will not have materialised. The programmed approach implies that emerging contractors who prove themselves will have the opportunity to bid for work at a higher level.

Projects with emerging contractors require that the project leader or qualified person under him should put in place certain control measures. Frequent supervision will ensure that emerging contractors do not incur unnecessary costs by producing work that has to be redone. The emerging contractors should perceive control not as officious interference by outsiders but as a safeguard in their interest as much as that of the client (Works). Too often emerging contractors are oversecretive of their business affairs and this attitude conspires against the smooth operation of the control and support required by developmental projects. The project leader as well as the trade associations will have to convince the contractors of the benefits of such arrangements. (The specific control and support requirements of emerging contractors at different levels of development are discussed in Sections 4.4 and 5.)

Finally, the project leader or project manager will have to be satisfied that the *institutional roles* assumed by the participants in the emerging contractor development programme are understood by all and that there are formal commitments to them. Time invested in consolidating the institutional roles will be of benefit as expectations will reflect what the project or programme is intended for, rather than other schemes that may have been promoted in the subregion. The local authority and other statutory agencies will have to be kept informed of development work being carried out in their jurisdictions.

The data banks on emerging contractors should be accessible to all agencies. This information will help emerging contractors with employment opportunities in other areas. Access to information, easy channels of communication and frequent interaction between the stakeholders and the project leader throughout the duration of the project or programme, will contribute to the emerging contractor development programme not only being 'transparent' but also being seen to be as such. Openness will contribute to greater legitimacy and acceptance of the programme, than 'vertical' arrangements which, if they bypass the

involvement of the ultimate beneficiaries, could be suspect in the eyes of the community.

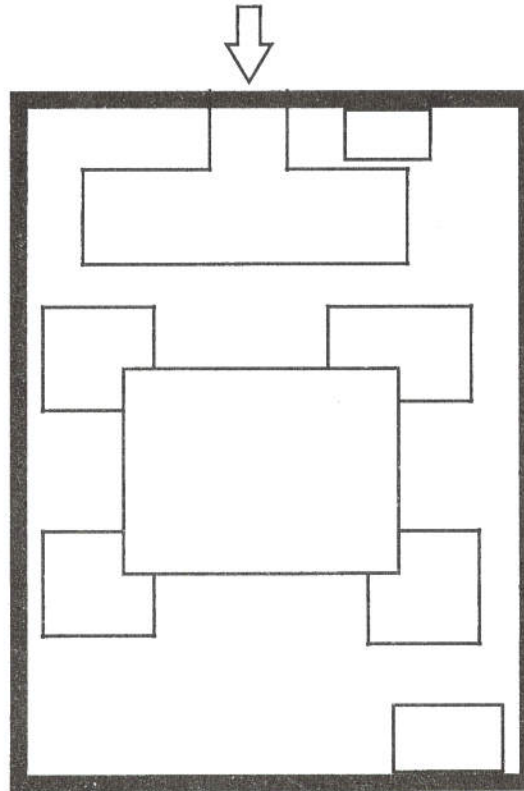
In summary, *conventional* projects are governed by enforceable contracts, with penalty clauses for non-compliance; risk is taken by the contractor as part of his or her entrepreneurial activities; and the objective of such projects is limited to the delivery of physical assets. Human resource development, should it occur, is incidental to the main purpose. *Developmental* projects, with a human resource component such as emerging contractor development, demand that the project leader should closely monitor progress in order to control and support the emerging contractors. This will enable them to complete projects on time and to the agreed standard, as required by contract, thereby reducing the risk of client and contractor alike.

Support should *not* be selective, that is, providing what is easy and ignoring what is difficult or costly. If a need is identified it will have to be addressed, otherwise the project will be at risk. In these circumstances, penalty clauses are likely to be unenforceable since enforcement would simply put the contractor out of business and, in so doing, negate a programme objective.

## Attachment 1

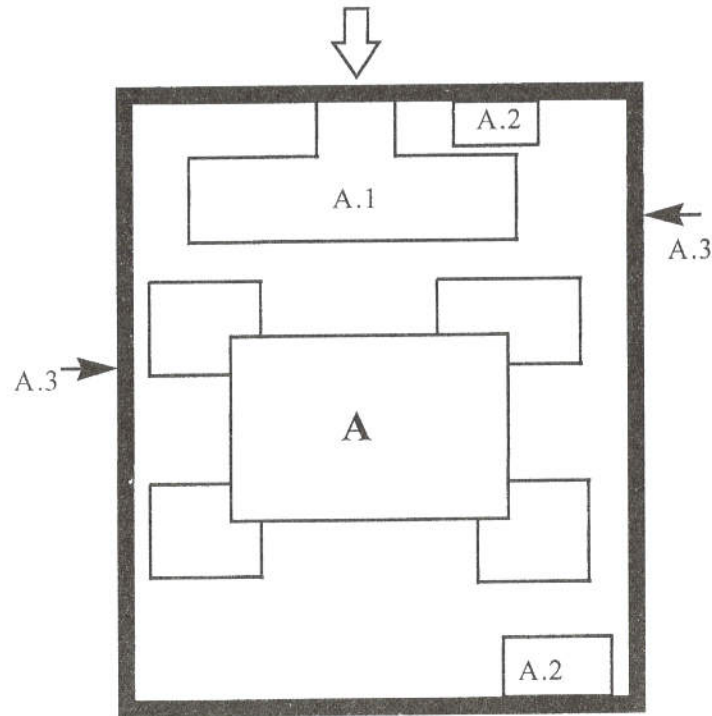
### Subdivision of projects specifically for emerging contractors

In order to further clarify the distinction between established and emerging contractors and between emerging contractors themselves, the following theoretical project examples are presented with a view to identifying work opportunities for each.



*Figure 1 shows the distribution of buildings on a site surrounded by a wall.*

This drawing and subsequent ones are not to any particular scale.



*Figure 2 represents the site plan of a hospital.*

*A* is the main building which will require an established contractor able to work from bills of quantities. He should also be able to manage and coordinate a complex operation involving specialised subcontractors and providing training to the emerging contractors.

*A1* represents a building, for example offices and/or classrooms, that are within the capabilities of an emerging contractor at level 4 or 5. A bill of quantities is required.

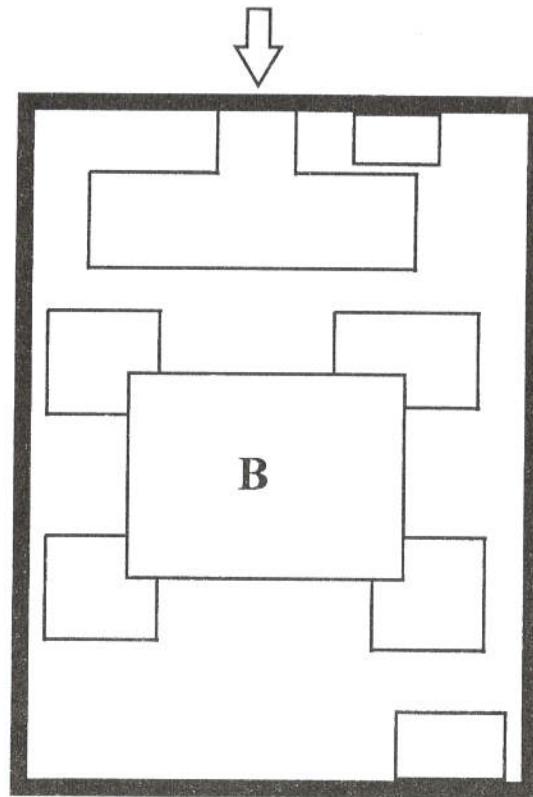
*A2* represents ancillary buildings within the capabilities of level 3 contractors. A resource bill is required.

*A3* is a boundary wall which could be built by one or more level 2 and 1 contractors. A list of materials is required.

The contract with the established main contractor will nominate the emerging contractors for *A1*, *A2* and *A3* as nominated subcontractors.

The contract with the established main contractor will stipulate that he or she should train the emerging contractors in those areas of work (technical, managerial or business) required for them to carry out their individual contracts for *A1*, *A2* and *A3*.

The main contractor will not have this training obligation towards the subcontractors on building *A*, who would be specialist subcontractors.



*Figure 3 is intended to represent the site plan of a large school.*

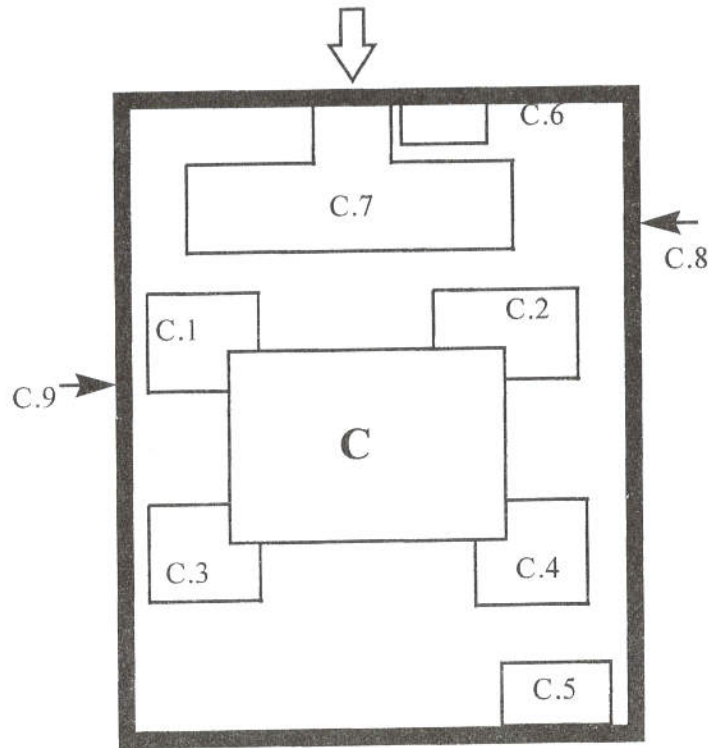
The emerging contractors at levels 4 and 5 would tender for the work as a main contractor on the basis of a resource bill. The project and the resource bill should be explained and clarified prior to the tender.

The resource bill simplifies the traditional bill of quantities by breaking down cost items into material and labour components. This facilitates the emerging contractors' understanding of labour productivity, which is crucial for survival and growth in the industry.

The emerging contractors will be able to subcontract specialist input, for example electrical and plumbing work.

The tender arrangements for such a project, if intended for the emerging contractors of an area, will limit outside participation by giving preference to the local emerging contractors. Whatever the conditions set, they should be publicised with the call for tenders, in order to ensure that all tenders received are genuine and not nominal submissions to make up a statutory number of bids.

The fact that a project is earmarked for emerging contractors, or is likely to employ them as subcontractors, implies that control and support services (technical, managerial and business) will be available as and when required.



*Figure 4 is intended to represent the site plan of a small school.*

Each project item, C through to C9 is to be built by a separate emerging contractor.

The management of the operation is to be undertaken either 'in-house' by the Works project leader, or by a project manager (established contractor or professional consultant or other suitably qualified person appointed for the purpose) supervised by the project leader.

The management service, if not done 'in-house' by Works, should be the subject of an open tender. The project manager or his deputy (clerk of works) will undertake project control as part of the management function.

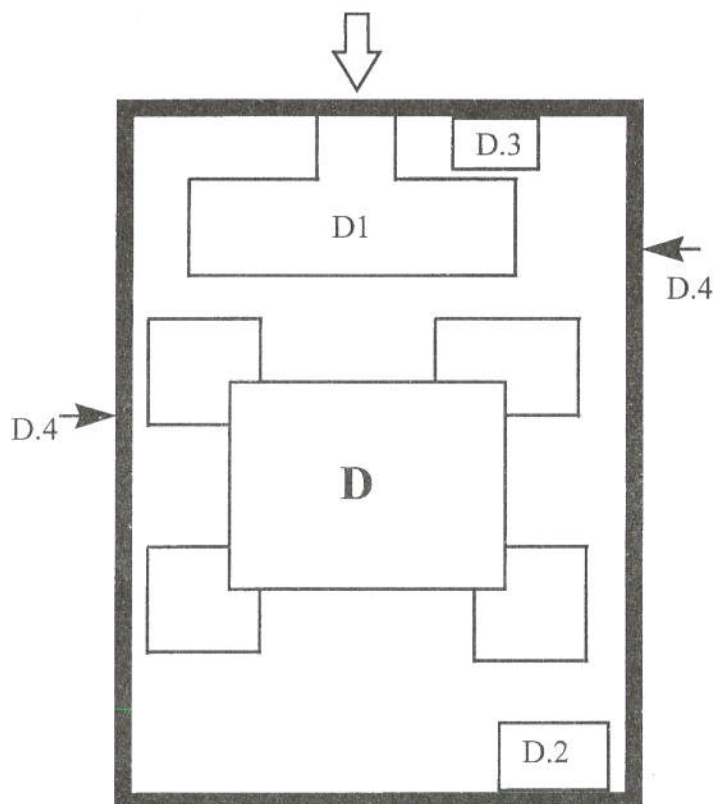
An important aspect of a developmental project is the involvement of the local community, particularly where work is scarce, in which case the prospects of employment will raise expectations. It will be necessary for Works to interact with the community to ensure its identification with the project and its participation in the implementation process. A community facilitator can contribute significantly to the liaison between Works and the community.

The support requirements identified by the project leader or the project manager in consultation with the emerging contractor will have to be facilitated by Works.



The project documentation – the resource bill or materials list and specifications – should be explained to the emerging contractors prior to tendering. This will have to be done by the project leader or by the project manager.

The project division *C* through to *C9*, responds to the employment needs of the area. Other combinations are possible to reflect the needs of the area.



*Figure 5 is intended to represent the site plan of a school (large or small).*

Some buildings can be set aside for training purposes to enable emerging contractor development to rise to a given level in anticipation of future employment opportunities.

There are likely to be a variety of ways in which to subdivide a building project. The best option will be the one that accommodates the needs of the emerging contractors in a particular area.

If time is not an overriding concern, it would be possible for emerging contractors, for instance building the wall *D4*, to continue on site with project *D3*, and so on.

## Attachment 2

Tables 3–5<sup>4</sup> are attached as a practical reminder of the process to be followed when engaging emerging contractors. They summarise the requirements to implement an emerging contractor development programme.

Table 6<sup>5</sup> lists on the horizontal axis the possible parties that may be involved in an project with emerging contractors. The vertical axis lists the project cost items. There are many options to implement a project, depending on how responsibilities are allocated.

Table 7 allocates costs to the items previously listed according to the responsibilities of the participants. The costs are intended to illustrate a point and should not be used for other purposes.

These tables provide a practical way to analyse a programme or project and compare costs between projects.

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<sup>4</sup> Tables 3–5 have been transcribed from the publication *Socio-economic enhancement of development projects* of the DBSA's Construction and Development series.

<sup>5</sup> Tables 6–7 are from *An estimating framework for projects using emerging contractors*, a publication in the Construction and Development series referred to above.











### Attachment 3

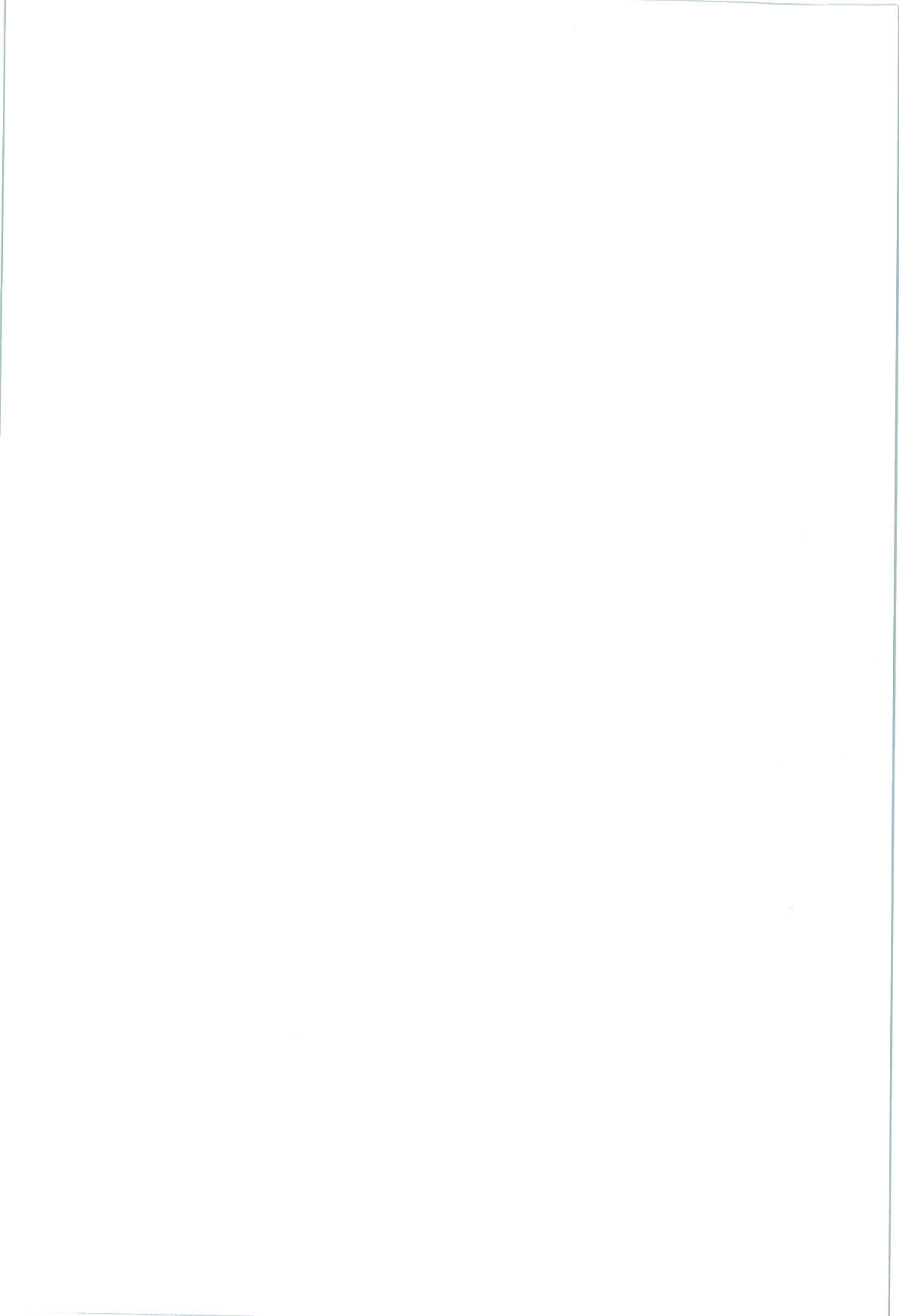
The following are some practical aspects to be considered by the project leader when setting up an Emerging Contractor Development Programme:

- *All* local contractor Trade Associations should be involved in the Programme
- The Programme should be *workshopped* with the local contractors to ensure that the purpose of the programme is fully understood
- *Resources* will have to be provided to run the workshop
- The workshop should be widely *advertised* through the media and by directly contacting the Trade Associations
- The *agenda* for the workshop should be discussed and agreed with the emerging contractors
- The *facilitator* of the workshop should be acceptable to all parties
- The *suppliers* of materials should be invited to participate in the workshop
- The *venue* for the workshop should be agreed with the contractors
- The *day and time* of the workshop should be agreed with the emerging contractors. It should be borne in mind when setting the timetable that attending the workshop on a working day may imply the loss of earning for that day.
- There may be need to provide a *translation* service to ensure that the proceedings of the workshop are fully understood by all present
- The *conclusions* of the workshop should be recorded and circulated
- The workshop should *not be a one-off event* but a means of establishing lines of communication between the Trade Associations and Government
- The workshop should *appoint a committee* to represent the local Trade Associations and Government with the purpose of addressing issues of common concern and monitor progress
- The Programme should be *evaluated* in terms of all the development objectives; not only the delivery of a physical asset



- The Programme should be *evaluated* in terms of all the development objectives; not only the delivery of a physical asset





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