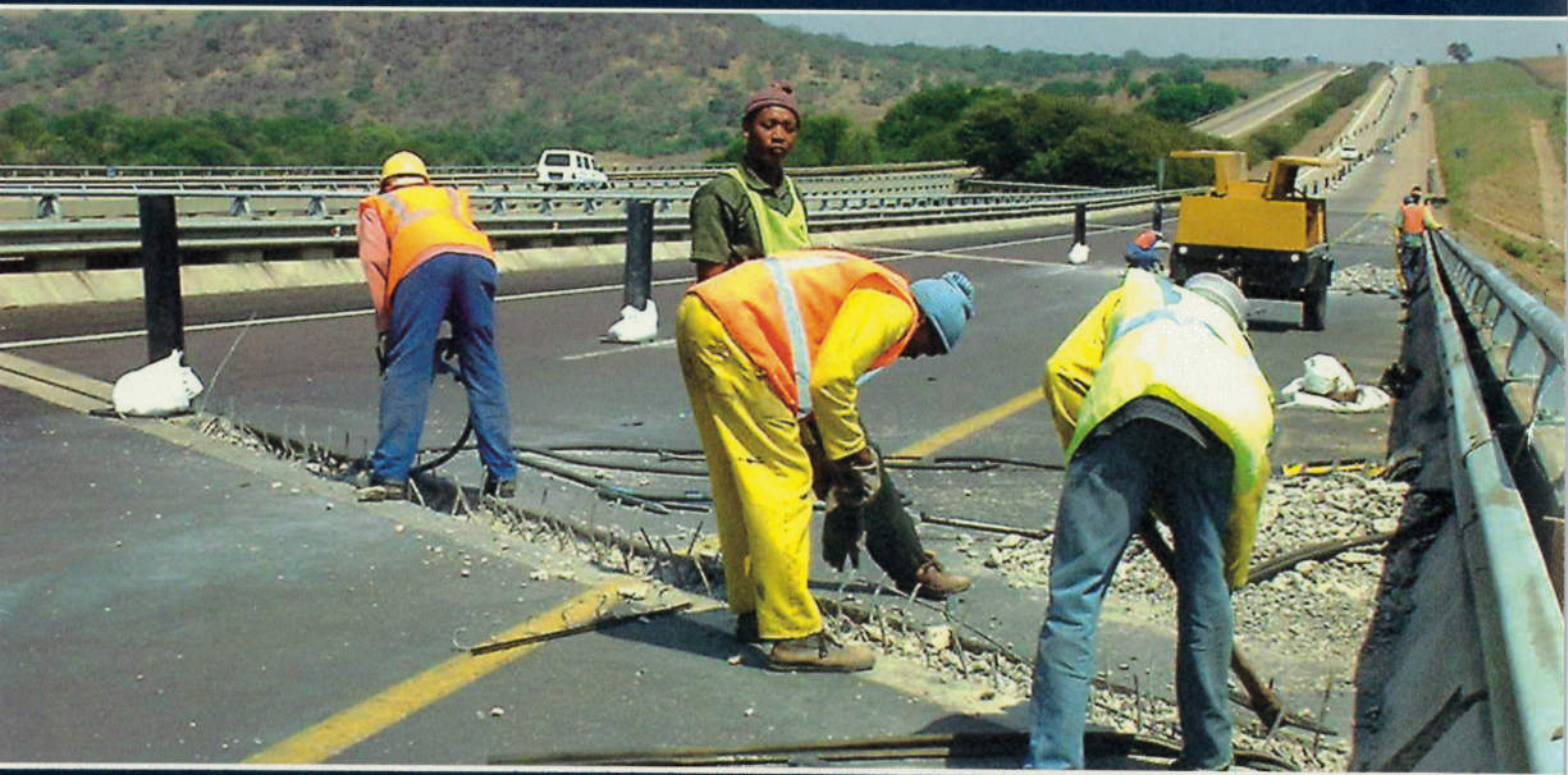




THE INVOLVEMENT OF SMALL CONTRACTORS, WOMEN AND COMMUNITY IN ROAD CONSTRUCTION

THE N4 CASE STUDY



**BUILDING KNOWLEDGE FOUNDATIONS
FOR DEVELOPMENT**



THE INVOLVEMENT

OF SMALL CONTRACTORS, WOMEN AND COMMUNITY IN ROAD CONSTRUCTION

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Preface

In the view of the Development Bank of Southern Africa (DBSA), case studies are important learning tools that contribute to the broader pool of development knowledge. The "Involvement of Small Contractors, Women and Community in Road Construction: The N4 Case Study", is a training case study intended to inform and challenge students, practitioners and decision makers. In the view of the authors most of the challenges in this case study revolve around building sustainable relationships with communities and are therefore of a social rather than technical nature.

This training case study has been prepared using the DBSA OEU Guidelines for Case Studies (13 May 2003) and explores the involvement of small contractors, women and community in the construction of the national N4 Toll Road. The case study raises three questions for debate. Firstly, was the outcome of the social contract realistic, secondly, could the outcome be improved on in future concession projects of this kind and thirdly, how?

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PREAMBLE

This case study is intended for training purposes and has been compiled using the Operations Evaluation Unit's (OEU's) Case Studies First Draft, 13 May 2003, recommended method of writing a case study for teaching purposes. The methods put forward in the OEU document are based on the Harvard Case Study method and the World Bank OED 1999 publication on Case Study Evaluations, and a Wits Business School note on case studies. Following the definition and types of case studies in the OEU document, this is a demonstration case study intended to illustrate the design and application of a predetermined strategy to engage the participation of communities in the implementation of the project. In terms of the OEU guidelines the case study is not intended to reflect a DBSA viewpoint, but rather to capture the events, the statements and the response of the stakeholders and place the issues on the table for further debate. However, to ensure that a bias is not created, the case study has been forwarded to Trac who have endorsed the case study in its current form prefacing this with, "The statements are balanced and objective. Implementing the Social Contract was a pioneering experience and can definitely be improved on now that we have the background". (Van Wyk, 28 June 2004)

In 1999, the recently completed N4 Toll Road project was regarded as the largest initiative undertaken in terms of the Reconstruction and Development Programme (RDP) and GEAR, in which economic and employment growth were key objectives. The N4 was part of eleven Spatial Development Initiatives, in this case the Maputo Development Corridor, in which the SA government recognised the private sector as an important player in stimulating employment through investment. Of particular significance to the project were the environmental aspects and the use of a social contract to ensure incorporation of SMMEs, particularly women and the Mpumalanga communities in construction.

1. INTRODUCTION

In the aftermath of the completion of the N4 toll road and despite claims by the Concessionaire that targets were met and in some instances exceeded, questions remain as to the outcome of the Social Contract.

This case study explores the involvement of small contractors, women and the community in the construction of the national N4 toll road and raises three questions. Firstly, was the outcome of the social contract realistic; secondly, could the outcomes be improved on in future concession projects of this kind and thirdly, how?

2. THE PROJECT

The N4 is a national, build, operate and transfer (BOT) toll road that was awarded to Trans African Concessionaire (Trac) for the expansion, rehabilitation and construction of 524 km of the existing national N4 road stretching from Spitskop Bridge on the Gauteng /Mpumalanga provincial border (about 80km east of Pretoria) to Komatipoort on the South African border with Mozambique. The largest portion of the road (427km) therefore passes through communities in the Mpumalanga province. Although the concession extends from Komatipoort to Maputo, no evaluation of what occurred on the Mozambique side is available.

3. THE N4 SOCIAL CONTRACT

The concessionaire, Trac, was also required to implement an integrated community participation programme, of which the building of construction SMME entrepreneurial capacity was a key focus area. Of the SA portion, 20% of the initial construction work was negotiated and packaged for SMMEs, as well as 30% of the operation and maintenance work, while the smaller Mozambique portion was 40% and 50% respectively. This case study only deals with the SMME capacity building experiences on the SA portion.

The N4 Social Contract was structured on three pillars namely, community participation; education and training development; and small, medium and micro enterprise (SMME) development. These pillars collectively underpinned the arrangements for engaging and building the entrepreneurial capacity of Construction SMMEs.

Clear entrepreneurial development objectives with estimated budgets for consultation, pre-tender and contract training, and targeted outcomes formed the framework for implementing the Social Contract. The concessionaire made extensive use of DBSA expertise and experience gained in construction SMME development to formulate a consultative SMME awareness, engagement and participation strategy.

There were no contractual penalties in place for non-compliance with the terms and conditions of the Social Contract. Instead the collective voice of the communities, provincial government and the DBSA, was instrumental in ensuring that the concessionaire complied with its social undertakings. This was rectified in later PPP concession contracts such as the national N3 Durban toll road where substantial penalty clauses could be invoked in the event of non-compliance.

4. TERMINOLOGY USED IN THIS CASE STUDY

Social contracting in this paper refers to a formalised contract in which the concessionaire is obliged to assist in the social and entrepreneurial upliftment of communities in the immediate vicinity of the project. In the context of Construction SMME development the term "empowerment" is often used as an alternative to capacity building. Construction SMMEs are considered empowered when they reach a stage where their levels of dependency on the provision of training and mechanisms to access working capital, fall away. In other words they are enabled to self-sustain their SMME activities. (Rogerson, 1999) (Refer to the social contract on the N4 above).

In this paper, capacity building refers to the process of empowering SMMEs with construction and business skills training, as well as empowering them with access to financial resources. SMMEs are regarded as fully-fledged entrepreneurs when they no longer exhibit any form of dependency on the established construction and business sector. Ideally the relationship should change from one of dependency to that of interdependency.

"Construction SMMEs" is a DBSA development term that refers to local emerging entrepreneurs or small contractors, women in construction, disabled persons and the youth from the previously disadvantaged black communities in South Africa. Participating SMMEs identified during the consultative procurement and tendering process are known as "targeted SMMEs". For purposes of clarity and context, SMMEs, small contractors and women in construction are referred to as separate groupings.

5. A NATIONAL PERSPECTIVE

In order to better understand the national importance of the social programme in the N4 toll road, it is important to revisit the national initiatives and the perceptions that were created around these initiatives.

In 1999, the N4 Toll Road project was regarded as the largest initiative undertaken by the SA government in terms of the Reconstruction and Development Programme (RDP) and GEAR, in which economic growth and in particular, employment growth, were key objectives.

The N4 was part of eleven Spatial Development Initiatives (SDIs), in this case the Maputo Development Corridor, in which the SA government recognised the private sector as an important player in stimulating employment through investment. According to the DBSA (1998, 717), SDIs were based on "unlocking the potential of unrealised economic potential that could lead to job creation and wealth generation in areas of the country".

The above aspects, in particular the creation of jobs, were exploited from political platforms to the extent that perceptions soon developed that projects of the magnitude of the N4 (R1.44-billion) were intended to provide jobs for all. In the private-public partnership concessions such as the N4 concession, job creation was intentionally captured in the design of the N4 social programme, but was, according to Van Wyk (1999), "very vague and left several loopholes for the developer and main contractor if they wanted to take advantage". Furthermore, according to Van Wyk, the concession contract erred in that no one anticipated that the Mpumalanga community would perceive projects of this magnitude to automatically guarantee jobs for all.



The N4 toll road was therefore considered to be the anchor and first project of the Maputo Development Corridor (Mitchell 1998 & 1999). It formed part of the road construction programmes linked to the SDIs to develop the wider construction industry in South Africa and the region focusing on (SMME) participation and empowerment. It represented a key change away from forced account road construction and operations towards the use of contracting out road construction and maintenance, an approach encouraged by the World Bank (Rogerson 1999:21)

6. THE STAKEHOLDERS

6.1 The South African government

South Africa's national Route 4 has, since the start of the 20th Century, been a very important road link from the gold producing hub of South Africa, centred in Johannesburg, to the Maputo Port. Not surprisingly, the newly elected South African Cabinet, in early 1994, agreed with Mozambique to invite bids from the international private sector to submit proposals for a full 30-year concession to build, operate and maintain the road. The significance of the 30-year concession was that, from an economic life perspective, it would force the successful concessionaire to give back to the state what would effectively be a new road. This as roads can be physically stretched to 20 to 25 years, but they can't be stretched to last for 30 years.



6.2 The public, private partnership

At the end of a three-year development and selection process the successful bidder (Trac) was granted the concession for a period of 30 years. Its bid price was R1,44-billion. When reflecting on the necessary maintenance costs to the fiscus of such a road, this represents a R32-billion saving to government over the 30-year life of the concession. The operational, maintenance and rehabilitation cost of the N4 toll road (the facility) had been taken off the SA and Mozambican

governments' operational accounts and put into the hands of the private sector, funded by users. The states involved (SA and Mozambique) remain legal owners of the land on which the road runs and can either take back the facility during the concession (with inclusion of a termination clause in documentation), or re-assume responsibility in 30 years' time.

6.3 The investment partners

In total there are three equity investing partners in the N4 venture (one foreign) and 12 lenders, all local. In parallel with the major activity of raising funding; design work, environmental impact and legal documentation had to be finalised. This was not without cost, as each concessionaire had spent about R50-million to develop its bid. The successful bidder then needed to employ



300 professionals for finalising the processes prior to submission of "best and final offer". The DBSA provided a R225-million, 20-year subordinated loan to the project.

Construction was managed as a conventional, fixed price contract between contractors and concessionaire, with monthly financial reporting through a designated financial trustee to the parties financially involved.

Of particular significance to the project were the environmental aspects; the incorporation of SMMEs; and particularly, women in construction. The environmental aspects were addressed by an Environmental Watchdog Committee, established under the auspices of an independent engineer, with reporting on compliance being made directly to the client, ie the South African National Road Agency Limited and its Mozambican counterpart. For example,

the creation of malarial mosquito breeding ponds was also an issue during construction and a mosquito management plan was introduced by the concessionaire.

6.4 The Development Bank of Southern Africa

Although the concessionaire received funding and support from other financial institutions (as mentioned above) their interest in the project was purely financial in nature. As a co-funder, the Development Bank of Southern Africa's (DBSA) interest was also in the developmental aspects of the project, in particular, the N4 Social Contract from which the Bank was to develop an in-depth knowledge and understanding of the design and implementation of social contracts.



As DBSA specialists, the author and co-authors in this case study were intimately involved in, among others, advising the concessionaires on the development of the N4 Social Contract and monitoring implementation. However, to remain objective, the author and co-authors have referred to an independent evaluation report on the South African portion of the road by the DBSA and Ntsika Enterprise Promotion Agency titled "Investment - Led Entrepreneurship Development: An Investigation into the Impact of Large Investments on the SMME sector. The experience of the N4 Maputo Toll Road", Rogerson, C M, (1999), which has provided much of the background to this case study.

Extensive reference has also been made to the detailed research by J H van Wyk: "Implementing Community Participation on Projects in South Africa. The Maputo Corridor (N4) Toll Road Development as Case Study" (November 1999). As an employee of Trac, Van



CROCCOLE

Gresselle

Madary

Schagen





Wyk was responsible for the design and implementation of the Social Contract and presented a first-hand view of what transpired. Subsequently the closing report by the N4 concessionaires (*TRAC November 2000*) detailing the outcomes of the Social Contract (See Table 1) has provided a more complete picture of the final outcomes. The summary does not provide detailed outcomes, much of which can be found in the detailed analyses below.

6.5 The Mpumalanga community

The fact that this was a national road and therefore presented job opportunities to the nation did not escape the neighbouring communities in Gauteng and elsewhere who immediately expressed a desire to participate - which led to much heated debate. However, despite the Mpumalanga communities' claim to preferential involvement, provincial demands and differences were accommodated in the procurement process.

Three important aspects were to adversely affect Trac and the Mpumalanga communities' relationships in the project. Firstly, construction time was of the essence. Secondly, undesirable cost increases would have had, due to Trac's involvement over the 30-year concession period, negative effects on the feasibility and returns on the project. Experience has shown that measures that require developers to engage communities undoubtedly draw in more project resources and incur more project costs. In the case of the N4 Social Contract, Trac was required to make communities aware of the opportunities and provide the infrastructure and training for them to participate. Inevitably, developers are also drawn into, and have to negotiate around, community politics, an aspect that many in the construction field are unfamiliar with. Thirdly, as Van Wyk (1999) puts it, "the main problem that was experienced with the implementation of the toll road was that the national government neither prepared nor informed the communities, other than the Transitional Councils, about the background and the objectives of the Maputo Corridor Development Initiative (N4 toll road), nor involved the provincial government in the process".

According to Van Wyk (1999), "Communities were very disruptive when we (Trac) were going to create (only) about 2 000 casual, temporary and permanent jobs." Expectations in the media that the N4 toll would create wealth and "in excess of 70 000 jobs" was according to Van Wyk (1999) "one of the main reasons that suspicion and mistrust developed between Trac and the communities". These aspects were to cast a shadow over the implementation of the Social Contract which was later to spill over into wage disputes when, according to the Cape Times Business Report of 27 July 1999: "Trac refused to increase their (labourers') minimum wage from R4.18 to R5.58 an hour". During the final stages of the construction phase the Trac/community relationship had still not improved and was again highlighted in the delay in the opening of the Nkomzi Toll Plaza, which was, according to the Lowvelder newspaper (27th July 1999) "postponed for the fourth time yesterday when an angry crowd of farmers and taxi operators gathered at the plaza to protest against unacceptable tolls".

According to the same newspaper, the response from the Trac executive officer, Trevor Jackson, was that "Trac did all in its power to negotiate an acceptable settlement with the community." Jackson further accused the negotiation committee of going back on its previously-agreed fee settlement. However, according to Jackson "we simply have no more room to move and are on the brink of reaching default with our financiers". (*Cape Times Business Report, July 27 1999*). The outcome of these negotiations was that frequent users of the toll such as the taxi owners were granted a 60% discount on toll fees.

6.6 Women contractors and entrepreneurs

Construction has been a male-dominated industry in South Africa for many years. The Association of General Contractors (AGC), the Building Industries Federation of South Africa (BIFSA), the South African Federation of Civil Engineering Contractors (SAFSEC) and the Black Construction Council (BCC) were all run almost exclusively by men. However, the South African Constitution and Equity Act required that women be employed in all sectors of the economy, an opportunity that many women took up on the N4 despite negative perceptions that the construction environment was not a place for women. According to Lazar & Gordimer (1993:12): "When their men left to work as migrant labourers, the women built their dwellings, supported their families, and farmed the lands ... whole communities became matriarchal". (*Lumsdaine & Lumsdaine, 1995:409*)

As a result of a more enabling environment, women became active participants in the start-up of the N4 construction phase. In doing so they had to overcome major obstacles such as gender socialisation, the lack of incentives attracting women into the sector, no track records, limited access to finance, shortcomings in tendering skills, sparse technical skills and a hostile construction environment. In their endeavour to participate, they were actively encouraged and supported by South African Women in Construction (SAWiC), an organisation established to empower women to gain access to contracts, training, finance, international literature, training programmes, best practice and networks in the construction industry. The Minister of the South African National Department of Public Works, Stella Sigcau, continued throughout the construction phase to indicate government's support for women in construction. (*SAWiC Annual report 2003*)

7. THE OUTCOMES OF THE SOCIAL CONTRACT

7.1 Targeted outcomes

In terms of achieving targeted outcomes, the research indicates a high degree of success in implementing the Social Contract. However, the reports also express the somewhat more

subjective view that more job opportunities, training and financial support could have been offered by the concessionaire. (Rogerson, 1999) This will no doubt remain speculative until such time as a clearer understanding of the ability of the emerging sector to respond to the opportunities to participate in large infrastructure projects is known. This is generally referred to as the absorption capacity of SMMEs, and is largely dependent on the public and private sectors' ability to provide an enabling environment for SMMEs to access construction contracts, training and financial assistance.

7.2 Facilitation versus accountability

Although the concessionaire's attempts at facilitating access to finance proved fruitless, due mainly to the reluctance of commercial banks to lend to those with limited business skills and track records, the number of SMMEs engaged in construction contracts on the N4 (see Table 1) compares favourably with other projects. There is, however, no indication that any



growth in financial independence of the SMMEs involved occurred. Judging by the responses of the SMMEs interviewed on the N4 they were left to their own ingenuity to access bridging finance to start up their contracts. According to Rogerson: 1999, "the noticeable lack of a suitable financial mechanism resulted in many SMMEs neither participating nor realising their full potential".

The Rogerson study (1999) cited access to finance as the major problem experienced by 80% of the construction SMMEs: "Typically, for the SMME economy as a whole, the needs of

start-up capital were met through either the entrepreneurs' own savings (47%) or from assistance from friends and family members (37%)," according to Rogerson (1999:28). Formal assistance from finance institutions were only granted in six instances while two cases reported that they obtained assistance from the Mpumalanga Development Corporation. Four cases obtained finance from the formal banking system. Most (53%) of the construction SMMEs functioned from home-based premises while the larger SMME enterprises functioned from purchased or rented premises. According to Green: 2000:19, six women-owned construction enterprises were awarded contracts.

7.3 Lack of financial mechanisms to enable Construction SMME

Expectations that development institutions specialising in guarantee funds and capacity building, and their private sector equivalent, the commercial banks, would provide the desperately-needed SMME bridging finance, failed to materialise. Because of the concession-



aire's lack of success in facilitating financial SMME support from commercial banks in SA (these institutions were reluctant to provide what was perceived as high risk entrepreneurial loans to SMMEs), many SMMEs fell by the way, much to the concern of the SMMEs and the DBSA. In most cases, SMMEs borrowed finance from sources outside the formal financial structures and ended up paying exorbitant interest rates. This also was rectified in later projects such as the N3 toll road where concessionaires were required to provide, rather than facilitate, SMME funding mechanisms (see *financial support below*).

7.4 The ratio of men to women in the construction phase

The Rogerson report (1999) stated that 90% of the SMME entrepreneurs in the sample were men and that the findings in the report underscores the concerns of the Commission on Gender Equality that only a fraction of the tenders for the Maputo toll road had been awarded to women-managed businesses. According to Hammond: 1999 & James: 1999, only two women-managed businesses were involved, namely a woman entrepreneur who took up the manufacturing of overalls for construction workers and another who was involved in fencing and paving. The report concluded as follows: "In interviews with Trac and consultants for the Commissioner on Gender Equality, it was confirmed that women-managed enterprises were currently marginal to the construction of the N4 toll road to Maputo, albeit that there did exist a number of isolated examples of successful women-run construction enterprises, most notably one women's construction group on cleaning the road (*James: 1999; van Wyk: 1999*)". Sadly, the report contrasts this with the "flourishing business of sex work around truck stops" (*James: 1999*).



7.5 Women in joint ventures

In terms of joint ventures with women on the N4 toll road, there was none mentioned by Rogerson: 1999, a fact hotly disputed by SAWiC and confirmed in a newspaper article, (*Mpumalanga News: 1999; van Wyk: 1999*) in which interviews conducted with a women's joint venture proved the converse. In terms of education, it was stated in the report by Rogerson that on the joint ventures there were five white partners who were highly trained in aspects of the construction industry through formal university or technikon qualifications.

This was in contrast to their previously disadvantaged individual (PDI) partners who had achieved between standards 6-9 qualifications and about 25% of the PDI entrepreneurs had matriculated. There was no report on the education levels of the women entrepreneurs as such, probably due to the limited numbers. The SAWiC database confirmed that the situation was similar to that reported for the other PDI entrepreneurs. According to the SAWiC database, the ages quoted for the construction entrepreneurs were generally from 40 to 49.

7.6 Formalised involvement of Construction SMMEs

All businesses that contracted to the N4 were formally registered. The majority of participants (83%) were residents of Mpumalanga. The reasons for business start-up of the construction SMMEs according to Rogerson: 1999, were mostly in terms of demand-pull rather than supply-push considerations. An independent survey done on the SAWiC members confirmed this finding. (Verwey: 2003)



7.7 Construction SMME training on the N4

As part of its commitment to the Social Contract, the N4 concessionaire built three community centres along the length of the road that were extensively used for skills training (See Table 1). These centres, together with mobile community forums, provided local entrepreneurs with the opportunity to become aware of the job opportunities and engage the concessionaire, which also made use of the opportunity to identify SMMEs and target those suited for pre-tender training.

Although the concessionaire trained 11 503 entrepreneurs in construction skills over a three-year period, this was budget-driven, as the concessionaire was unable (at the bidding stage) to determine how many people would require training. A 'free for all' training perception was ever present but was controlled by limiting training to the target group who tendered. The training was subsequently extended to those who were awarded tenders. The number of SMMEs trained does not, however, imply that the total trained complement of entrepreneurs was engaged in the project (see *Table 1*).

Training covered a broad variety of needs that ranged from the skills required to work in the construction environment, to survival skills. For example, an additional 8 419 people were trained in construction, social and community skills such as safety, induction and environmental awareness, construction skills, first aid/basic health care and nursing, management, road safety, basic tendering, Adult Basic Education and Training, business skills, "You and your money", how to apply for a job, security, cooking, computer skills and sewing.

7.8 Job Opportunities and Construction SMME Contracts

Despite the fact that this was a national toll road, communities in Mpumalanga were adamant that the N4 toll road came through their province and jobs were therefore automatically reserved for them. This was resolved by offering Mpumalanga communities in the vicinity of the project first option, expanding to the municipal districts in the province and finally, to SMMEs from other provinces.

In total, 7 206 job opportunities were created over the first three years of the project at a cost of R226-million (approximately US\$30.1-million). At 32 person years per R1-million invested in infrastructure, this compares favourably with the national benchmark of 13.93-person years per R1-million.

To accommodate SMMEs, 680 construction and maintenance contracts were designed and packaged to present a wide range of economically feasible job opportunities consolidated into small contracts. The economic feasibility of the packages of work was often in dispute as many of the contracts proved either too small or too large and were subsequently revised to match the available SMME resources and skills.

7.9 Involvement of South African Women in Construction (SAWiC)

It is worth noting at this point that the involvement of men in the construction phase was not backed by the Mpumalanga Small Contractor Associations with the same enthusiasm as that achieved by the women equivalent. The fact that Trac preferred an open tender procurement process rather than work through representative small contractor bodies in Mpumalanga may have contributed to this. The exception was Trac's recognition that the South

African Women in Construction (SAWiC) could, and did, play a pivotal role in drawing women into the construction phase. However, despite the strenuous efforts of SAWiC, the number of women involved over the three-year period of construction was disappointing, with two in management, 20 in semi-skilled and skilled, and 113 in unskilled construction activities. In total, this represented six percent of the total SMME involvement. The reasons for the low involvement appears to be the rural environment through which the N4 passes, where the perception exists that the construction sector is an unattractive, harsh environment in which prejudices against women abound. (Verwey and Havemann: 2001)

7.10 Preferential procurement measures on the N4

After consultation and negotiation with the stakeholders the concessionaire developed an eight-point preferential procurement guideline in line with the National Preferential Procurement Policy Framework. Points were given not only on the basis of tendered cost but for using local, black entrepreneurs; percentage equity shareholding in the company; previous experience in construction; construction and management skills; use of women contractors; use of labourers from the community and previous projects completed. SMMEs requiring assistance in training to tender were not discriminated against, nor were those without access to adequate equipment, plant and machinery, so long as they had the necessary skills to operate and manage the use thereof.

In some cases SMMEs tendered without the conventional establishment costs, plant and machinery. (These were provided by the concessionaire.) In other cases, where they had access to plant and equipment, their tenders included establishment costs. The success of the SMME engagement programme could, in part, be attributed to the concessionaire's flexibility in procuring their services.

7.11 Tenders awarded to Construction SMMEs

R226-million (approximately US\$30.1-million) of construction work was awarded to 160 SMMEs in the form of labour contracts, small construction contracts and ancillary contracts such as grass cutting, fencing, catering, signage, haulage, security etc. Judging by the number of contracts awarded (680), many of the SMMEs were awarded contracts on a repetitive basis, thus freeing the concessionaire from engaging and training new SMMEs. The concessionaire held the view that this was providing "sustainable employment" to individual SMMEs for the three-year duration of the project. Although linked to employment, the converse view argues that sustainable development is a process that promotes the entrepreneurial development of SMMEs (new and existing) through ongoing skills development. It is therefore not only the number of employment opportunities created, but also the number of people trained in the opportunity.

8. SUMMARY OF THE OUTCOME OF THE SOCIAL CONTRACT

Table 1: Outcome of the N4 Social Contract - (N4 Final Report)

Over a 3 year Construction Period	Outcome
Consultative community forums	10
Meetings held with communities	Over 200
Employment opportunities taken up	7206
People trained in construction skills	11 503
People trained in social and development community skills	8 419
Costs associated with all types of training (excluding three training centres, furniture and equipment of R1.76 million and dedicated SMME training courses of R0.21 million)	R 6.06-million
Construction SMME tenders awarded	680
Construction SMMEs awarded tenders	160
Value of construction SMME work	R 226-million
Value of construction SMME work as a % of Initial construction work (three-year period)	20%
Value of construction SMME work as a % of operation and maintenance work (27-year period)	30% Anticipated

Note: Because of the uncertainty regarding the ability and capacity of the communities to take up the opportunities in the project, outcome targets were restricted to key outputs, namely: the value of construction SMME work as a percentage of initial construction work over the three-year construction period (20%), and the number of jobs created (estimated to be 2 000), both of which were achieved.

9. ONGOING DEBATES

9.1 Financial support for SMMEs

As indicated above, accountability for providing financial assistance to SMMEs was neither acknowledged nor contractually binding and the arrangements for sourcing funds for this purpose were based on optimistic expectations that other institutions would step forward. In terms of financial empowerment and independence, the financial mechanisms to assist Construction SMMEs was an important issue that was not adequately addressed by Trac.

In the view of the DBSA team, in social contracts of this nature, there is much debate as to where accountability for financial support mechanisms for SMME participation should rest.

Three approaches are currently found. Firstly, that in private sector driven projects (such as the N4) the training and financial empowerment of Construction SMMEs should be contained and funded in the project. Secondly, projects should source external public or private sector funds for capacity building and thirdly, projects should contain a mixture of both internal and external funding for capacity building. Is it possible that all three approaches could have worked if the Trac was held accountable and arrangements were contractually binding?

9.2 Matching expectations to predetermined targets

While there are differing opinions on the outcomes of the N4 Social Contract, detractors tend to depart from a speculative "could have been better", citing the concessionaires' lack of knowledge of the SMME environment and the lack of any form of contractual penalty and unsupportive financial mechanisms as factors. The high-profile nature of the N4, its magnitude and the rural community expectations that it would become an immediate and desperately needed source of employment and training, was a continuing source of concern to the concessionaire (see number of community meetings - Table 1). The N4 Social Contract was intended to address the needs of the project and not alleviate the burden of unemployment in Mpumalanga. In the view of the DBSA team, a question still remains unanswered. Did the N4 project have the potential to generate more than the 20% SMME involvement that it achieved? Results can only be judged against intended outcomes, all of which, including SMME training, were achieved in the allocated time and budget.

10. THE N4 SOCIAL CONTRACT OUTCOME IN THE NATIONAL CONTEXT

Although entrepreneurial development is not separately recorded by the SA Statistical Services, the number of jobs created in the construction sector is used as an indicator. The national benchmark for the SA construction sector for 1999/2000 is 14.69-person years per R1-million invested in infrastructure. This is made up of 13.93 for civil engineering and 15.46 for building. Dividing value added or expenditure into employment derives person years per R1-million invested in infrastructure (refer to "Employment Creation and Construction SMME Involvement in Development Projects in South Africa - A Sector and Sub sector Analysis", Havemann, Van Gass. 2001.)

By comparison, the entrepreneurial jobs on the N4 toll road, based on the value of the SMME contracts (R226-million) over the three-year construction period, were more than double the national norm at 32-person years per R1-million. These figures are expected to further increase over the remaining 27 years during which the SMME maintenance contracts will go out to tender.

11. CONCLUSION

The DBSA's view is that despite this being the first serious attempt at the socio-economic enhancement of BOT toll roads, many lessons were learnt in the process and because targets were met, a measure of success was achieved. This view is shared by Trac which maintains the Social Contract was successfully implemented. In their view, confrontations with the community were created by circumstance beyond their control. Notwithstanding the above, were the outcomes realistic? Could they have been improved on and how?

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