MARCH 2009

STATUS QUO REPORT

SA CONTRACTOR DEVELOPMENT PROGRAMMES
Executive Summary
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There is a compelling need to unlock growth constraints, to develop sustainable contracting capacity and to elevate enterprise development of previously disadvantaged individuals. Leadership by government is required to establish the framework for contractor development, to unlock growth constraints and to stimulate the role of industry and stakeholders for skills development, meaningful empowerment and improved performance.

In response, the National Contractor Development Programme (NCDP) has been initiated as a sector-specific intervention within the framework of South Africa’s Accelerated and Shared Growth Initiative. Led by the Minister of Public Works and the Provincial MEC’s, it is committed to the accelerated growth of the construction industry to meet rising national demand. Specifically, the programme is geared at enhancing capacity and promoting equity ownership across the different contracting categories and Grades, as well as improving skills and performance in the delivery of capital works and maintenance across the public sector.

The NCDP is a government programme comprising of a partnership between the cidb, national and provincial public works and other willing stakeholders, in which the participating stakeholders commit their resources to develop previously disadvantaged contractors.

Contractor Development Programmes (CDPs) can clearly play a very important role in supporting the development of the construction industry and the development of emerging contractors. Currently there are more than 18 CDPs of various forms in South Africa, with more than 1300 contracting enterprises currently participating in these Programmes.

Notwithstanding that it has been very difficult to obtain reliable information on the growth and performance of contractors that have participated in CDPs, there have been some very notable successes arising from these CDPs – and there are several instances of where contractors have increased their cidb Gradings by three or four Grades during, or subsequent, to their participation in CDPs. Furthermore, evidence suggests that CDPs are contributing significantly to the total number of contractor upGrades in Grades 2 to 4 in General Building (GB) and Civil Engineering (CE), but substantially less so to upgrades in Grades 5 and 6.

However, while there has been some very notable successes in the growth of contracting enterprises, the overall success of CDPs is somewhat questionable.

Against this background, the cidb carried out a review of current major public sector sponsored CDP’s, in order to identify challenges faced and lessons learned from these Programmes, and to identify good practices for promotion across all CDP’s. This review was supported by an assessment of selected CDPs, focusing primarily on Programmes located within Public Works Departments.

Key lessons learned from this review are summarised below:

i) **Development Models:** Clearly, no single contractor development model will apply to development across all Grades of contractors, and all levels of business maturity. Rather, different models are more appropriate to different levels of development, and can be broadly grouped as follows:

   • EPWP learnership type models for, typically, Grade 1 and 2 construction workforce development;

   • Emerging Contractor Development Programmes (ECDPs) for, typically, Grade 2 to 3 emerging contractors, incorporating predominately mentorship models supported by formal business and technical training;

   • Enterprise Development Programmes (EDPs) for, typically, contractors in Grades 3 to 6 who exhibit potential to develop; and
• Programmes focusing on performance improvement of established contractors in, typically, Grades 4 to 7.

The need, and scope exists, for development programmes to address all these components – but it is important that these objectives should not be convoluted within a single Programme – as is the case with many current Programmes. Specifically, it is recommended that Programmes focusing on contractors in Grades 1 to 2 should not be designed as incubator programmes, but should form part of the Extended Public Works Programme (EPWP).

ii) Demand Side Support: Various distinct models exist for providing access to projects for development purposes, each with their own advantages and/or possible disadvantages:

• contractors compete for projects through normal public procurement methods, which sometimes form part of the pre-qualification for contractors to enter into a development programme; or
• contractors within development programmes receive preferential access to projects through limited bidding schemes or similar.

In the latter case, and in particular within CDPs within Works Departments, contractors often view participation in development programmes as an opportunity to gain access to work opportunities and not as an opportunity to gain access to developmental opportunities – particularly where screening and evaluation of contractors is not sufficiently rigorous. Budgeting and allocation of projects to CDPs within a Works Department environment to CDPs also introduces particular in-house capacity and business process requirements which generally are not in line with the core functions of the department, and which need to be adequately resourced and managed.

In many cases, the required in-house capacity and business processes are not adequate, and several CDPs (particularly within Works Departments) are not able to provide the intended work opportunities to participants within the Programmes – which undermines the sustainability of the participating contractors and the credibility of the Programmes.

The advantages and/or possible disadvantages of various models for providing access to projects for development purposes need to be carefully considered – and need to be clearly communicated to the prospective participants.

iii) Quality and Performance Standards: The quality (and relevance) of mentoring and training within CDPs and the expected standard of performance of contractors is a key determinant of the success of any CDP – but varies amongst the various CDPs. In particular, there is no uniformity in the level, relevance and quality of training provided, in the quality of mentors, or in the performance standards that contractors are expected to achieve at the time of exiting the Programme. In many cases the only performance standards in place are criteria in terms of an increase in turnover or in a Grade achieved during the programme – which often compromise construction delivery standards or are achieved with an overreliance on support from mentors.

The starting point (and in particular for emerging Contractor Development Programmes) has to be setting an objective that contractors will when exiting the Programme have acquired the minimum competencies necessary for managing a contracting enterprise and for supervising building and construction works – of which an industry accepted norm for Grades 2 to 3 is a NQF Level 4 National Certificate and for Grades 4 to 6 a NQF Level 5 National Certificate. These competence requirements are being incorporated into the cild Best Practice Contractor Recognition Scheme grading framework currently being developed, and it is appropriate that CDPs align their development models with the cild Best Practice Contractor Recognition Scheme.

Attainment of output performance standards for contractors should then form the basis of:

• selection criteria and screening of contractors for entry into CDPs;
• quality control of mentoring and training provided within the CDP;
• ongoing evaluation and assessment of contractors during the development phase;
• assessment of contractors on exiting a CDP; and
• assessment of the overall success of a CDP.

iv) Risk Sharing: Risk sharing, amongst all parties, is an important component of any best practice enterprise development model – but is almost totally absent in most CDPs. In the CDPs assessed, the risk of contractor development is carried almost exclusively by the Works Departments and CDP by reducing the risk to contractors in the initial stages of development and gradually removing the support mechanisms at each stage of advancement.

Some of the mechanisms being used to reduce the risk to contractors during the incubation or development phase include preferential access to projects, waiving of guarantees or sureties, sub-prime interest rates, mentorship and training. While these are all important, in the absence of risk or cost sharing and of appropriate quality and performance standards, these CDPs are seen as low risk opportunities to access work opportunities – which often tends to attract participants that are least able to perform.

While reducing the risk of contractors during the development phase of emerging contractors in, say, Grades 2 to 4 is a necessary component of any developmental programme, a balance in sharing of risk is required to attract those contractors that are most likely to succeed.

v) CDP Database: Another further key conclusion drawn from this investigation is that it has been very difficult to obtain quantifiable information on the development of contractors that have been, or are currently, participants on CDPs. This lack of accessible information limits a deeper understanding of contractor development.

The report concludes with detailed recommendations to enhance CDPs, as well as recommendations for the NCDP.
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SA Contractor Development Programmes:

1. Background

There is a compelling need to unlock growth constraints, to develop sustainable contracting capacity and to elevate enterprise development of previously disadvantaged individuals. Leadership by government is required to establish the framework for contractor development, to unlock growth constraints and to stimulate the role of industry and stakeholders for skills development, meaningful empowerment and improved performance.

In response, the NCDP has been initiated as a sector-specific intervention within the framework of South Africa’s Accelerated and Shared Growth Initiative. Led by the Minister of Public Works and the Provincial MEC’s, it is committed to the accelerated growth of the construction industry to meet rising national demand. Specifically, the programme is geared at enhancing capacity and promoting equity ownership across the different contracting categories and Grades, as well as improving skills and performance in the delivery of capital works and maintenance across the public sector.

The NCDP is a government programme comprising of a partnership between the cidb, national and provincial public works and other willing stakeholders, in which the participating stakeholders commit their resources to develop previously disadvantaged contractors.

Contractor Development Programmes (CDPs) can clearly play a very important role in supporting the development of the construction industry and the development of emerging contractors. Currently, more than 18 CPDs of various forms exist in South Africa, but very few of these Programmes have been assessed on a national level as to their successes and challenges.

Against this background, the cidb carried out a review of current major CDP’s, in order to identify challenges faced and lessons learned from these Programmes, and to identify good practices for promotion across all CDP’s.

The aim of this report has therefore been to provide an overview of contractor development programmes (CDPs) in South Africa, and to identify the challenges and opportunities for contractor development. This overview was supported by an assessment of selected CDPs, focusing primarily on Programmes located within Works Departments.
2. Context

A broad overview of the state of contractor development, with a particular emphasis on public sector procurement, is provided in this section as context for assessing the status of contractor development programmes in South Africa.

2.1 Supply and Demand

One of the most powerful instruments available to support contractor development in the construction industry is public sector procurement, supported by the Preferential Procurement Policy Framework Act (PPPFA). An overview of the total estimated public sector contract awards per CIDB Grades is shown below for General Building and Civil Engineering for the period 4th quarter 2007 to 3rd quarter 2008\(^1\). The distribution in public sector contracts awarded between the grades reflect the infrastructure requirements of South Africa, but also reflect the potential to support contractor development across the various grades. The figure below clearly illustrates that potential exists to promote contractor development using public sector procurement across all Grades – and not only across, for example, Grades 2 to 4 which is the dominant focus point of current CDPs within Works Departments.

The ability to use public sector procurement to influence contractor development will however clearly vary from province to province.

### Demand; Public Sector Awards (Corrected)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Value pa (Rm;Corrected)</th>
<th>% Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 &amp; 8</td>
<td>20,004</td>
<td>67.00%</td>
</tr>
<tr>
<td>5 &amp; 6</td>
<td>6,531</td>
<td>22.00%</td>
</tr>
<tr>
<td>2 - 4</td>
<td>3,428</td>
<td>11.00%</td>
</tr>
<tr>
<td>Total</td>
<td>29,962</td>
<td>100.00%</td>
</tr>
<tr>
<td>Civil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 &amp; 8</td>
<td>27,543</td>
<td>58.00%</td>
</tr>
<tr>
<td>5 &amp; 6</td>
<td>6,930</td>
<td>34.00%</td>
</tr>
<tr>
<td>2 - 4</td>
<td>2,370</td>
<td>7.00%</td>
</tr>
<tr>
<td>Total</td>
<td>36,843</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

While public sector procurement is a key driver that can be used for contractor development, a further point that needs to be considered is the distribution of public sector spend not only across tender grade and class of works as illustrated above, but also across the life cycle of a project or infrastructure value chain. CDPs should not only focus, say, on new capital works but also on maintenance, refurbishment, etc. The table and graph below reflect the maintenance and refurbishment which currently account for approximately 20% to 30% of all public sector General Building contract

### Maintenance; Public Sector Awards (Corrected)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Value pa (Rm;Corrected)</th>
<th>% of Total in Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 &amp; 8</td>
<td>4,240</td>
<td>21.00%</td>
</tr>
<tr>
<td>5 &amp; 6</td>
<td>1,428</td>
<td>22.00%</td>
</tr>
<tr>
<td>2 - 4</td>
<td>1,134</td>
<td>33.00%</td>
</tr>
<tr>
<td>Total</td>
<td>6,803</td>
<td>23.00%</td>
</tr>
<tr>
<td>Civil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 &amp; 8</td>
<td>5,337</td>
<td>19.00%</td>
</tr>
<tr>
<td>5 &amp; 6</td>
<td>727</td>
<td>10.00%</td>
</tr>
<tr>
<td>2 - 4</td>
<td>221</td>
<td>9.00%</td>
</tr>
<tr>
<td>Total</td>
<td>6,285</td>
<td>17.00%</td>
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awards, and approximately 10% to 20% of Civil Engineering contract awards.

The total number of cidb registered contractors in General Building and Civil Engineering, excluding Grade 1 contractors, is shown in the graphs and tables below and will be elaborated on further in the sections to follow. There are no indications that capacity shortages exist in the lower Grades within the General Building and Civil Engineering classes of works. In fact, all indications suggest that there is an oversupply of contractors in Grades 2 to 4 within these classes of works, and that this is a very competitive environment. Capacity constraints do however exist in other classes of works within the above mentioned Grades – such as in certain categories of Special Works. CDPs need to take cognisance of highly competitive environments, and should avoid, where possible, stimulating further competition through new entrants in competitive environments. On the other hand, CDPs should take cognisance of areas with capacity constraints, and where appropriate should consider designing CDPs to address such constraints that impact on service delivery.

Of significance is that black ownership is relatively high across Grades 2 to 6 – with about 80% of all construction companies being black owned (defined as ownership greater than 50%). Preferencing of black owned construction companies is therefore no longer a sufficient differentiator in the lower cidb Grades to support contractor development – and differentiators are increasingly becoming more performance orientated (such as track record for delivery, competence and experience, etc.).

<table>
<thead>
<tr>
<th>Grade</th>
<th>Number of Contractors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Building</td>
</tr>
<tr>
<td>7 &amp; 8</td>
<td>193</td>
</tr>
<tr>
<td>5 &amp; 6</td>
<td>610</td>
</tr>
<tr>
<td>2 - 4</td>
<td>3490</td>
</tr>
<tr>
<td>Total</td>
<td>4283</td>
</tr>
<tr>
<td></td>
<td>Civil</td>
</tr>
<tr>
<td>7 &amp; 8</td>
<td>213</td>
</tr>
<tr>
<td>5 &amp; 6</td>
<td>765</td>
</tr>
<tr>
<td>2 - 4</td>
<td>2472</td>
</tr>
<tr>
<td>Total</td>
<td>3450</td>
</tr>
</tbody>
</table>

Of significance is that black ownership is relatively high across Grades 2 to 6 – with about 80% of all construction companies being black owned (defined as ownership greater than 50%). Preferencing of black owned construction companies is therefore no longer a sufficient differentiator in the lower cidb Grades to support contractor development – and differentiators are increasingly becoming more performance orientated (such as track record for delivery, competence and experience, etc.).

<table>
<thead>
<tr>
<th>Grade</th>
<th>Value per annum (Rm/Corrected)</th>
<th>Number of Black Contractors</th>
<th>% Black Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 &amp; 8</td>
<td>193</td>
<td>140</td>
<td>40% - 80%</td>
</tr>
<tr>
<td>5 &amp; 6</td>
<td>610</td>
<td>521</td>
<td>&gt; 80%</td>
</tr>
<tr>
<td>2 - 4</td>
<td>3,490</td>
<td>2,290</td>
<td>&gt; 80%</td>
</tr>
<tr>
<td>Total</td>
<td>4,293</td>
<td>3,951</td>
<td>&gt; 80%</td>
</tr>
<tr>
<td></td>
<td>Civil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 &amp; 8</td>
<td>213</td>
<td>99</td>
<td>40% - 80%</td>
</tr>
<tr>
<td>5 &amp; 6</td>
<td>765</td>
<td>556</td>
<td>40% - 80%</td>
</tr>
<tr>
<td>2 - 4</td>
<td>2,472</td>
<td>2,265</td>
<td>&gt; 80%</td>
</tr>
<tr>
<td>Total</td>
<td>3,490</td>
<td>2,930</td>
<td>&gt; 80%</td>
</tr>
</tbody>
</table>

2.2 Growth and Development

One indicator of development is the growth in a contractor’s cidb grading over time, and this is also a frequent objective of CDPs or a criteria for exit from a CDP.

The total number of contractor upgrades of cidb registered contractors that is currently being observed is illustrated below for the period of the 4th quarter 2007 to 3rd quarter 2008. It is seen that, in relative terms, the highest number of
upgrades is occurring in Grades 5 and 6 – with around 10% of Grade 5 and 6 contractors upgrading to higher grades annually.

What is of particular significance is the number of upgrades and the number of new entrants, shown below for the period 4th quarter 2007 to 3rd quarter 2008. It is seen, for example, that during this period 81 General Building contractors have been upgraded to a grade within Grades 2 to 4, with over 600 new entrants in the same period! This again illustrates the competitive environment in Grades 2 to 4 which CDPs need to take cognisance of. In contrast, about 160 contractors upgraded to a grade within Grades 5 to 6, while there were only around 85 new entrants.

It is useful to try to quantify the impact of formal CDPs within the overall picture of contractor development in South Africa, against the picture above. However, it is very difficult to obtain reliable information regarding the number of contractors that are, or have been, enrolled with CDPs, and the limited information that could be obtained is presented below:

It is seen from the above that CDPs are probably contributing significantly to the total upgrades in Grades 2 to 4 in General Building and Civil Engineering, but substantially less so to upgrades in Grades 5 and 6 – suggesting a possible opportunity for CDPs to focus on Grades 5 and higher.
Furthermore, of interest, it can be noted from the table above that notwithstanding that a large number of contractors have been or are enrolled in CDPs, very few contractors have to date exited from these Programmes. This is largely due to the fact that many of these CDPs have been recently established.

The discussions above must however in no way be seen as meaning to infer that there is not a need for a focus on contractors in Grades 2 to 4, but to illustrate that there is a growing recognition that government procurement and contractor development must focus on those contractors that are best able to perform, and to encourage and reward performance improvement. Rather, the above is used to illustrate that the focus of contractor development needs to extend beyond Grades 2 to 4, and should in fact extend up to Grade 8 – although clearly different mechanisms will be required across different Grades.

Furthermore, while there strong indications that there are no shortages in the number of contracting enterprises in the lower Grades – there is overwhelming evidence that there are skills shortages, and in particular shortages of trained and experienced artisans and supervisors. While there is a significant focus on enterprise development, a focus on skills development is sorely lacking.

In addition, as highlighted above, contractor development should not only focus across all Grades and classes of works, but across the entire infrastructure value chain (including maintenance and refurbishment).

### 2.3 Technical Skills and Experience

The previous section has presented information on contractor development using the number of upGrades from one cidb contractor grade to another as an indicator of development. However, upgrading to a higher grade is only a weak indicator of development, and does not necessarily imply an increase in sustainability or improvement in performance.

An additional indicator of development is that of development in technical skills and experience. However, because competence levels are currently not assessed in the cidb Register of Contractors (other than the requirements for registered personnel for contractors in Grades 7 and above in General Building and Civil Engineering), it is not possible to draw developmental conclusions in relation to technical qualifications and experience.

Furthermore, most CDPs do not include as an objective the awarding of an NQF Level 4 National Certificate in Construction Management as an output criterion – which is regarded as the minimum competence necessary to successfully manage a contracting enterprise and for supervising building and construction works. Exceptions to this are the eThekwini Vuk’uphile Learnership Programme in which supervisors received NQF Level 4 qualifications. Furthermore, the ESKOM Construction Academy has modules at NQF levels 4 and 5 and is targeting and overall level of NQF 4 taking into consideration the levels of emerging contractors.

### 2.4 Business Maturity and Performance Improvement

As already highlighted in the previous sections, contractor development as measured by the growth in a contractor’s cidb contractor grade is only one component of development. In addition to a growth in competence reflected through technical skills and construction experience, equally important is the ‘process maturity’ within a contracting organisation – normally expressed in terms of its business and construction processes.

The Capability Maturity Model (CMM) describes the various stages of process maturity within an organisation in terms of the ability of the organisation to master its business and construction processes. The model notes that little value is added
to an organisation by addressing issues at a higher level if all the key processes at the current level have not be satisfied².

The various stages within the CMM can be summarised as:

- **Level 1**: Initial; the processes are characterised as ad hoc, and occasionally even chaotic. Few processes are defined, and success depends on isolated effort.
- **Level 2**: Repeatable; basic project management processes are established and repeatable. The necessary process discipline is in place to repeat successes on previous projects.
- **Level 3**: Defined; the processes for all activities are documented, standardised, and integrated into the organisation. All projects use an approved, tailored version of the contractor's standard process.
- **Level 4**: Managed; detailed measures of the processes and product quality are collected. Both the processes and products are quantitatively understood and controlled.
- **Level 5**: Optimising; continuous process improvement is enabled by using feedback from the processes to pilot innovative ideas and technologies. Contractors are consciously aware of their supply chain and get involved in the supply chain development.

It must be noted that all construction companies can mature over time – even if they remain at the same cild grade – although not all companies start at level 1. Specifically, as organizations grow from one grade to a higher grade, their processes have to be adapted, grow and mature for their new level of capability.

### 2.5 The cild Best Practice Contractor Recognition Scheme

The cild Register of Contractors Grades contractors according to their financial capability and track record in terms of the largest contract successfully undertaken over the past five years. The Register of Contractors does not recognise minimum competencies required to run a contracting organisation (other than minimum requirements for professionally registered persons in Grades 7 and above in GB and CE, and other statutory license requirements), the business and construction process maturity of the organisation, nor the quality of the work delivered.

The current cild Register of Contractors was always envisaged as being the first phase of the Registers, and the cild is currently developing the cild Best Practice Contractor Recognition Scheme, which recognises:

- the qualifications and experience of contractors and their nominated supervisors that are deemed to be minimum standards necessary for running a contracting enterprise and for supervising building and construction works within the fields of:
  - business management;
  - building and construction management (operation and supervision);
  - building and construction technology; and
  - legislative issues;

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construction management systems (CMSs) of Grade 5 to 7 contractors that are regarded as industry minimum standards, covering:
- health and safety management;
- quality management; and
- environmental management (covering air, water, land and waste); and
- supply chain development schemes of Grade 7 to 9 contractors that encourage the development of their supply-chain, including the development of sub-contractors or JV partners, by certifying an organisation’s.

Clients will then be encouraged to recognise good performance of contractors by evaluating tenders on both functionality and price – taking into account the minimum qualifications and experience required for successful project delivery, construction management systems and supply chain development.

It is appropriate therefore that CDPs align their development initiatives with the CICB Best Practice Contractor Recognition Scheme that is currently under development.

2.6 The National Contractor Development Programme

The National Contractor Development Programme (NCDP) is a sector-specific intervention within the framework of South Africa’s Accelerated and Shared Growth Initiative (AsgiSA). Led by the Minister of Public Works and the Provincial MECs, it is committed to the accelerated growth of the construction industry to meet rising national demand. Specifically, the NCDP is geared to address enhancing capacity and equity ownership across the different contracting categories and Grades, as well as improved skills and performance in the delivery of capital works and maintenance across the public sector.

The NCDP recognises that there are various components of development which contractors need to progress through in order to become competent experts in their field of operation and to grow and improve their performance – and incorporate the various principles discussed in the preceding sections. The NCDP recognises that contractor development initiatives should therefore cover a broad spectrum of activities, including:

- Construction Work Force Development, incorporating the development of the construction workforce through artisan and supervisor development (typically the ungraded workforce and CICB Grade 1 and 2 contractors.) Key instruments that can be used include learnerships of various forms together with the necessary supporting structures.

- Contractor Development, focusing on the development of contractors and comprises several subcomponents starting at the emerging contractor stage and progressing to the stage which focuses on developing the contracting enterprises (i.e. focusing on the business development), together with a focus on improving the performance of contractors:

- Emerging Contractor Development, focusing typically on Grade 2 and 3 contractors. Key instruments that can be used include learnerships within Emerging Contractor Development Programmes (ECDPs), predominantly incorporating mentorship in which the emerging contractor learns the business side of contracting including tendering for work, pricing, HR management, marketing, financial management, contract administration, etc. Within the ECDPs, budget are typically ringfenced for allocation to ensure sustainable work for the learner contractors.

- Enterprise Development, in which enterprises start growing, developing markets for their services, expand their workforce, expand their areas of operation, accumulate capital for future growth, expand their plant and
equipment, business and technical systems. This stage would target Grade 3 to 6 contractors who exhibit potential to develop. Key instruments which could be used within this stage include a combination of joint ventures, direct contracts, etc. Within the enterprise development stage, contractors would be awarded contracts through competitive bidding utilizing appropriate procurement strategies to ensure sustainable work supply to the contractors within the competitive bidding environment.

- Performance Improvement, in which the established enterprise introduces best practice systems for health and safety, quality management, environmental management, etc. in order to improve their performance. This stage would target the Grade 4 to 7 contractors who exhibit potential to develop. Key instruments which could be used include a combination of joint ventures, direct contracts and various other instruments within the context of the cidb Best Practice Contractor Recognition Scheme and the cidb Best Practice Project Assessment Scheme.
3. Overview of CDPs

A brief overview of various Contractor Development Programmes in South Africa is given in the following sections. A summary of the target focus areas (or cids Grades) and the target NQF qualifications gained at exit are given below. An assessment of several of these Programmes is given in Section 4.

### 3.1 NDPW Contractor Incubator Programme

**Overview:** The National Department of Public Works Contractor Incubator Programme (NDPW CIP) runs over a three year cycle, and focuses on the development of contractors in cids Grades 3 to 7 (as it is regarded that the market below this threshold is populated by too many contracting enterprises).

The purpose of the Programme is to create an enabling environment within which qualifying existing contracting enterprises can develop. The Programme includes focused supply side support through a structured mentorship-centred enterprise development programme.

134 contractors have entered the Programme, but no contractors have yet exited. A total of 33 contractors have increased their cids grading by between 1 and 2 grades.

**Institutional Capacity and Management Model:** The NDPW CIP has an established regulatory framework to support contractors, and the business processes of the NDPW CIP are also aligned to the preferential procurement policy and the Public Finance Management Act (PFMA). The NDPW CIP business process model allows for the targeting of categories defined by the Department as blacks, women, youth and the disabled.

The NDPW aims to commit budgets to the Programme through annual planning, and Incubator Programme participants are able to access work at one financial category higher than non-participants (up to Grade 5). In reality, however, insufficient funds and capacity constraints limit the allocation of sufficient work opportunities to the CIP.

Performance on a contract is measured in terms of completion of the contract according to the quality requirements of the client within the agreed budget (cost) and time schedule. The NDPW CIP matches a construction contracting enterprises’ abilities with the demands of the contract to ensure that quality, schedule and cost requirements are met while the contracting enterprise operates profitably.

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The NDPW CIP incorporates representatives of all of the programme stakeholders into a CIP unit, consisting of NDPW clients, NDPW consultants, CIDB, CETA (and other Setas), financial institutions, mentors, training providers and other government departments (e.g. Provincial DPWs, DTI, etc.). However the capacity of the CIP Management Team is currently severely constrained due to insufficient staff capacity and high vacancy rates. Inadequate management resources have also resulted in inadequate management systems being put in place. The option of sourcing part-time staff is limited due to unclear policy on the use of external capacity.

**Contractor Development Model:** The targets for contractor development in the NDPW CIP are to have at least 50% of currently CIDB registered contractors to be competitive in an open market at the end of year 3. Selection of a contracting enterprise is based on experience in contracting and experience in construction-related activities. Other criteria include registration as a business enterprise, access to skilled staff, banking and credit record, the type and size of a contractor, level of a contractor’s development, potential to satisfy contract-specific key performance areas, and track record.

Mechanisms derived from the South African Construction Excellence Model (SACEM) framework are used to a limited extent to monitor and evaluate contractors during the Programme – but this is not taking place in practice. The intended monitoring and evaluation tools include contractor development plans, contractor’s monthly reports, internal audits, mentor’s monthly reports, and internal reviews. These tools are also intended to be used for ongoing evaluation of contractors within the CIP.

Contractors exit the CIP after 3 years, and this includes an assessment of their level of development using the SACEM model.

Projects are awarded to contractors within CIP on the basis of a limited bidding process, and the CIP aims to provide contractors with sufficient work opportunities within the Programme.

**Demand Side Practices:** As already noted, demand side project funding is currently a severe constraint within the Programme. The NDPW CIP ensures that the security of payment and payment cycles are improved by paying contractors every 14 days, and the NDPW applies the department’s waiver of guarantee and scheme. There are however no provisions for simplified conditions of contract.

Joint ventures are only considered where contractors have clearly defined roles and responsibilities to avoid exploitation and delays.

**Supply Side Practices:** The CIP Programme Management team aims to ensure that the Construction Education and Training Association (CETA) expedite training arrangements and other programmes such as the Black Suppliers Development Programme of the Department of Trade and Industry. The Programme is however not designed to award formal NQF level qualifications such as the National Certificate in Construction (NQF level 4 or 5).

Accessibility to back-to-back agreements and credit guarantees with the Independent Development Corporation (IDC) and the banks for bridging finance are also arranged. The Programme is designed so that mentors are appointed to assist the contracting enterprise with its development – to date, a total of 14 mentors have been appointed to provide support to the CIP contractors that are awarded the DPW projects. Mentors assess contractor’s level of development using the SACEM model and design development plans that guide contractor development through the duration of the programme. Mentors coach contractors onsite during the project and also incorporate outcomes of the development
plan in providing support. The key support areas include leadership, project management, stakeholder management, resource management, cost and quality management, handling sub-contractors and suppliers and managing the environmental and statutory requirements e.g. OHS.

Other support includes training and an arrangement with the Standard Bank to provide financial assistance to the CIP contractors on a piloting basis. The training that has been provided to the CIP contractors include training on the CIP procedures, DPW Procurement procedures, JBCC, SACEM Assessment, Small Business Management, OHS Act etc. The DPW also facilitates networking and information sessions for the CIP contractors through provincial meetings and using the CIP database.

3.2 DPW Eastern Cape Contractor Incubator Development Programme

Overview: The Eastern Cape Contractor Incubator Development Programme (EC CIDP) operates in the Eastern Cape Province under the custodianship of the Eastern Cape Department of Public Works (EC DPW). The Programme runs over a three year cycle, and focuses on the development of contractors in cildb Grades 2 to 5. The targets within the Programme are 20% youth, 10% disabled, 50% women and 20% other.

The EC CIDP is aimed at ensuring that contractors from previously disadvantaged backgrounds are given the opportunity to get mentorship, training and support, as well as to create an enabling environment within which selected existing contracting enterprises can develop into sustainable contracting enterprises. The Programme is an advancement programme with each stage of advancement characterized by higher levels of risk to the contractor and the removal of support mechanisms by the department. The staged advancement programme is designed to effectively remove barriers that prevent the full participation of emerging contractors in the construction industry.

60 contractors have entered the Programme which was started in 2007, and 12 contractors have to date increased their cildb grading by one grade (predominantly from Grade 1 to 3). No contractors have yet increased their cildb grade by two or more Grades. Because of the newness of the Programme, no contractors have yet exited the Programme.

Institutional Capacity and Management Model: The EC CIDP has an established regulatory framework to support emerging contractors which allows for targeted procurement procedures which are in line with affirmative action policy. The EC DPW business processes are geared to ensure that budgets and projects are identified in the department’s infrastructure planning cycle, and that contractors participating in the Programme are cildb registered.

The EC CIDP capacity is supported by representative of all the programme stakeholders into a Project Management Unit – including the CIDP managers, municipalities and mentors from The Coega Industrial Development Zone (IDZ).

Geographical constraints appear to be not dealt with adequately in the Programme, and have been highlighted by various contractors. The mentoring capacity and support is perceived by the contractors to be adequate, but the in-house capacity of the department is perceived to be a major constraint in effectively running the Programme.

Contractor Development Model: Selection of a contracting enterprise is based on experience in contracting and experience in the construction-related activities. The level of a contractor’s development is assessed using SACEM, and a minimum level of development is required for admission to the Programme.

Contractors participate in the Programme for a period of three years, during which time they receive access to finances, appropriate support, and accredited training programmes to address managerial, financial, technical and administrative capabilities.
The procurement method applied by the EC CIDP is based on limited bidding processes, and the EC CIDP aims to provide contractors with sufficient work opportunities within the Programme. Sustainability of work within the EC CIDP has however been highlighted as a major constraint by participating contractors – particularly at the lower cidb grade levels.

The EC CIDP relies on a mentorship programme for monitoring and evaluation, and to set criteria for performance standards. The Programme therefore relies on the mentor and training to reduce the Department’s risk and exposure to non-performance, whilst affording small and emerging contractors an opportunity to overcome business impediments. The emerging contractors are guided and advised in areas in which they need to improve their competency and develop the technical, managerial, administrative, commercial and business skills of their key staff members.

Joint ventures are only considered for projects were different classes of work are required, in which the partners in the project therefore have clear defined roles and responsibilities. Subcontracting is also encouraged to create business linkages between emerging and small contracting enterprises.

No clear strategies appear to exist to ensure continued support for contractors that have exited successfully.

Demand Side Practices: The EC CIDP does not require any sureties from contractors, but applies a retention system to reduce risk. Payments cycles ensure the contractor are paid twice every month, but information regarding payment disputes resolution processes could not be obtained. The EC CIDP uses the cidb Standard For Uniformity Procurement Tool to simplify their procurements processes.

Supply Side Practices: The EC CIDP provides entrepreneurial training for small start-up businesses to facilitate their entry into the economy, and provides access to experienced and accredited mentors which monitor and evaluate the progress and skills of contractors throughout the Programme.

Access to finance has been facilitated through an MOU with financial institutions, with mentors providing support on financial management.

3.3 DPW KZN Masakhe Emerging Contractor Development Programme

Overview: The Masakhe Emerging Contractor Development Programme (Masakhe ECDP) operates in the KwaZulu-Natal province under the custodianship of the KwaZulu-Natal Department of Public Works (KZN DPW). The Masakhe ECDP focuses on the development of emerging contractors and companies, aimed at creating a conducive environment in which emerging contractors can thrive, by facilitating access to:

- markets (DPW KZN contracts);
- financial support;
- training and mentoring; and
- skills transfer; and
- creating an emerging contractor development mechanism, performing:
  - basic business management and technical training;
  - implementing targeted procurement interventions;
  - ongoing technical support through a mentorship plan;
  - linkages with financial institutions or funding agencies for appropriate financing products; and
  - ongoing monitoring and evaluation of participating contractors.

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The Programme is a phased advancement programme that mentors contractors through various Grades, and has been designed and structured to give an end-to-end assistance and/or support framework, encompassing training and mentorship, financial and technical support to the contractors on the Programme as opposed to ad-hoc preferential procurement interventions. The Masakhe ECDP targets projects falling within the ciδb scope of value of R1m to R5m (or ciδb Grades 2 to 5).

150 contractors have entered the Programme which was started in 2007, and no contractors have to date increased their ciδb grading. Because of the newness of the Programme, no contractors have yet exited the Programme.

Institutional Capacity and Management Model: The Masakhe ECDP incorporated representatives of all the Programme stakeholders into a Project Management Unit (PMU). The PMU consisted of a contractor development directorate situated at the KZN DPW head office that performs the overall M&E. The contractor development directorate has also been split into regional blocks which are in charge of actual project implementation. The regional offices also carry the capacity of programme managers, project leaders, mentors and consultants. Other stakeholders involved with the Programme include the ciδb and the CETA.

Projects with the ciδb grade R1m to R5m values are targeted by the KZN DPW to be set aside for the Masakhe ECDP’S. Budgets are identified and set aside for the Programme. Business process and requirements have been drafted and documented, detailing the Programmes procurement methods, line function responsibilities and the scope for development to be followed by the KZN DPW.

The procurement method used is based on limited bidding processes, applies the following HDI procurement scoring:

Women: 40%
Youth: 20%
Priority Population Group: 35%
Physically Disabled: 5%

Contractor Development Model: The criterion for inclusion into the Masakhe ECDP encompasses elementary training and profiling on entry. The focus of the criterion for inclusion includes BBBEE and a technical profile, contractor performance and contractor grading for progression.

The Masakhe ECDP provides contractors with business and technical training, together with mentorship for onsite technical support and business management.

Progression within the Programme is linked to growth in ciδb contractor grade, successful completion of projects at a high quality, and the acquisition of business and technical skills and business performance. Advancement from one stage to the next is considered when:

- the contractor has met a required level of competency as prescribed for each ECDP stage;
- the contractor has successfully completed a number of projects or a required total project value; and
- a Masakhe ECDP performance management report confirms 1 and 2 above.

The maximum number of contracts and maximum values within each stage that a single contractor must complete before advancing to the next stage or exiting the Programme is given on the following page⁵:

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The Masakhe ECDP aims to provide contractors with sufficient work opportunities within the Programme, but access to projects within the Programme has been highlighted as a major constraint by contractors.

The Programme is not designed to award successful contractors with an NQF Level 4 or 5 qualification in construction management.

Joint ventures and sub-contracting are only considered to benefit the ECDP contractors in projects outside of the Programme, due to project scale and complexity. Subcontracting and JVs are encouraged but are only implemented by Masakhe ECDP in a controlled environment where contractors roles in the partnership are well defined and spelled out.

Demand Side Practices: The Masakhe ECDP payments cycle system ensured that contractors were paid every 14 days, although information regarding payment disputes resolution processes was not highlighted.

The Programme uses standard conditions of contract, and sureties are waived in the place of a retention system that minimizes risk for the client and the Department during the defects liability period. It could not be established whether the Masakhe ECDP uses the ci db standard uniformity procurement tool to simplify procurements processes.

Supply Side Practices: The Masakhe ECDP provides access to both financial and non-financial support. The non-financial support involves soft training, which involves business administration and management training, technical training from basics of tendering, including project costing, and technical onsite skills. Financial support includes partnerships with financial institutions for the purposes of incorporating financial management support, and pure lending.

Access to training in the Programme is geared to give training on a phase by phase basis, starting with pre-tender training, pre-construction training, and then construction phase training. Mentors are also used as part of the training through partnerships initiative, to provide ongoing training on specialist areas of intervention, on an ongoing basis.

In an effort to foster business linkages, contractors who have been on the Programme and have reached Grade 4 and 5 are encouraged to engage contractors from lower Grades of the programme during construction phase of project implementation.

### 3.4 DPW Western Cape Contractor Development Programme

Overview: The Western Cape Department of Public Works Contractor Development Programme (WC CDP) that operates in Western Cape Province has recently been established, and is planned to run over a three year cycle. The Programme is aimed at facilitating the development of small to medium sized contractors and focuses on the ci db Grade 1 to 3 contractors. Very little progress has been achieved to date with the implementation of this Programme.

This programme aims to focus on the development of an enabling environment comprising predominately supply side measures for the support of growing enterprises through a structured mentorship-centered enterprise development programme. The WC CDP recognises that ci db Grade 1 and 2 sectors are highly competitive and crowded, and
therefore attempts not to guarantee sustainability of work during the Programme, but rather to provide supply side support to ensure that a contractor has the necessary business and construction skills. The objectives of the Programme are to ensure that selected emerging contractors in the construction industry are placed into a structured emerging contractor development programme to support the empowerment objectives of the Department of Transport and Public Works, Western Cape Provincial Government.

A minimum of 300 enterprises are targeted to be entered into the Programme, which aims to provide a minimum of 1,200 permanent jobs and a potential 6,000 temporary jobs. However these targets may have not been met because the amount of work and projects available within the province are unlikely to support the Programme’s targets.

Contractors are allowed to participate in the Programme for a maximum of two years.

Institutional Capacity and Management Model: The WC CDP has an established regulatory framework to support contractors through the department. In particular, the cidb contractor grading system is used to match contractors and contracts. The business processes of the WC CDP are also aligned to the preferential procurement policy and the PFMA.

The WC CDP focuses on contractors in Grades 1 to 3, and in an effort to identify work suitable for the specific target groups the Programme has committed budgets to the Programme through annual planning, aligning budgets and Programme objectives. However not all Grade 1 and 2 contractors received consistent work during the Programme, and the Programme has therefore involved recruitment agencies and training agencies that aim to find work in the private sector for the individual enterprises. Notwithstanding this, sustainability of work remains a major constraint within the Programme.

The WC DCP incorporates representatives of all of the Programme’s stakeholders into a project management unit. This unit has dedicated support staff, including recruitment agencies and training agencies. The WC DPW has also facilitated a CDP intergovernmental cluster to extend capacity for contractor development across the entire province. This also allows the province to provide for a consistent and coordinated approach to contractor development.

Contractor Development Model: Criteria for entering the programme are based on ownership profile, cidb registration and successful completion of entrepreneurial psychometric assessment.

The thrust of the WC CDP is to place emphasis on training, mentorship, and financial assistance, and where possible, to provide public sector contracts to participants (through a limited bidding process). The Programme then supports contractors to perform within specific timeframes and budgets, using verifiable indicators against which progress can be measured and monitored.

Contractors participate in the programme for a maximum of two years during which they are evaluated on their technical performance and financial performance of their business units by their mentors. During this period contractors are also afforded the opportunity to compete for contracts with each other, but entry level one contractors are selected as subcontractors on the projects.

Demand Side Practices: Demand side practice adopted by the WC CDP ensures that sustainability of work is aided by private sector placements for contractors who cannot source public sector contracts. The Preferential Procurement Implementation Plan is used to promote the selection of these contractors.

WC CDP ensures that the security of payment and payment cycles are improved by paying contractors every 14 days.
There are however no provisions within the Programme for simplified conditions of contract. Joint ventures are only considered where contractors have clearly defined roles and responsibilities to avoid exploitation and delays.

**Supply Side Practices:** The WC CDP management team coordinates access to resources and processes on supply support practices. Structured training programmes have been developed and funded through the Department of Labour and financial institutions. The training framework has been structured according to the contractors’ cildb grading, business profile and training requirements.

All contractors have been placed in a CDP mentorship programme – focusing on the development of both technical and business skills. Financial assistance models have been designed to address the need of the contractor’s business unit and not only based on a particular contract or project. A relationship manager from the financial institution has also been attached to the emerging contractor to assist with financial management.

### 3.5 KZN eThekwini Vuk’upile Learnership Contractor Development Programme

**Overview:** The eThekwini Vuk’upile Learnership Programme (EVLP) operates in the KwaZulu-Natal province within the eThekwini Metropolitan Municipality, and focuses on the development of small, established contracting businesses. The Programme aims to assist in the reduction of unemployment within the KwaZulu-Natal province. The Programme focuses on contractors within cildb Grades 1 to 3 in various classes of works that have a turnover of less than R0,2m. Not all contractors within the Programme are registered with the cildb. The Programme runs over a 36 months cycle.

The EVLP is an Extended Public Works Programme (EPWP) initiative and the contracts awarded to participants are therefore labour intensive in nature. The Programme has, in the first year of existence added approximately 3 000 jobs in urban and rural areas of the province.

25 contractors have entered the EVLP over the past 31 months, of which 21 contractors have exited to date. All these contractors have received NQF Level 2 and their supervisors received NQF Level 4 qualifications, and 19 contractors have increased their cildb grading by one grade, while three contractors have increased their gradings by 2 or more Grades. During this first year, 20% of the participating contractors were entities owned and managed by black women.

**Institutional Capacity and Management Model:** The eThekwini Metropolitan Municipality has partnered with other stakeholders such as the Construction Education and Training Authority (CETA), the provincial Department of Public Works (DPW), mentors and consultants. The EVLP incorporates representatives of all of the programme stakeholders into the project management unit, consisting of line departments’ project managers, project technicians, consultants and mentors. However, the permanent staff complement within the EVLP is perceived by contractors as being inadequate, but the part time staff (consultants and mentors) as adequate. The geographic constraints on the dedicated staff complement also hampered effective support for contracting entities.

**Contractor Development Model:** Entry into the EVLP is by means of a call in the general media. The emphasis of this advertisement is not focused on work experience, legislative requirements (cildb registration), skills levels and enterprise development potential. Screening and evaluation of contractors for access to the programme involves interviews and examinations to select the successful contractors.

Contracts are awarded to participants within the EVLP on a negotiated tender basis. The Programme aims to provide contractors with sufficient work opportunities within the Programme, but the issue of sustainability of work within the EVLP has been highlighted as a major constraint by the contractors.
The EVLP provides access to Training and Learnership aimed at providing contractors with NQF Level 2 qualifications, and their supervisors with NQF Level 4 qualifications. Ongoing evaluation of the contractors is undertaken by mentors, who provide the EVLP with monthly progress reports.

Contractors exit the Programme after achieving a maximum number of upGrades and/or after achieving a target growth in turnover – but information on the criteria used could not be obtained for the assessment.

Information could not be obtained on mechanisms that have been implemented by the EVLP to ensure continued support and monitoring of contractors that have exited the Programme.

**Demand Side Practices:** The EVLP’s payment cycle system aims to ensure that contractors are paid every 14 days, but the payment dispute resolution processes is not sufficiently addressed within the EVLP and does result in some delays.

The EVLP aims to standardize contracts and waived sureties to avoid burdening the contractor with additional financial requirements and commitments. The retention system is also employed to minimise risk on quality during the defects liability period.

The EVLP only encourages Joint Ventures (JVs) once contractors have exited the Programme by encouraging JVs among successfully graduated contractors together with established contractors in a controlled environment where exploitation among partners is minimized.

**Supply Side Practices:** Access to finance is also facilitated through a Memorandum of Understanding (MOU) between financial institutions and the EVLP.

There is limited facilitation of networking and business linkages between the various contractors within the Programme. Rather, this takes place between the contractor and mentor after the contractor has exited the Programme.

### 3.6 KZN eThekwini Large Contractor Model

The eThekwini Large Contractor Model was not part of the CDP assessment, but a brief description of the Programme is included below:

- The eThekwini Large Contractor Model was conceived in an effort to accelerate contractor development within the City where the managing contractor / agent would be obligated within the terms and conditions of the contract to subcontract emerging contractors as part of a formal CDP within the project.

- The current project (currently amounting to about R850m) is managed by the Water Services Department and involves the relaying of AC pipes across the City. The contract was awarded to a consortium of four large contractors, and 17 emerging contractors were appointed as sub-contractors through a public tender process.

- The project started in July 2007 and is expected to be completed by June 2010. The specific objectives of the CDP include:
  - improving the performance of the participating contractors in terms of quality; and
  - improving the grading status of the sub-contractors by at least two Grades by the end of the programme.

The Programme is therefore of a sufficiently long duration for sustained development of the sub-contractors.
Overall business model, of eThekwini Metro:

- provides project funds;
- defines the project outcomes;
- manages implementation and enforces contract requirements; and
- ensures that designs are appropriate for contractor development purposes.

The four established major contractors are required to supervise and programme manage the implementation of the projects by smaller contractors, and were also required to appoint an independent mentor to capacitate the emerging contractors in business and project management skills. (In this project, all the large contractors appointed the same mentor company for all the emerging contractors.) Individual business plans were also prepared for each contractor to ensure that the project objectives are achieved.

The entry grading level of the participating contractors is between Grades 2 to 4, and each of the 17 participating contractors were rigorously selected from a large number of contractors who expressed interest to participate through the public tender process. Entry to the programme was itself very competitive.

The emerging contractors are currently about 50% of the way through their first projects, and all are progressing well.

The PMU is currently packaging other types of projects (rural roads programme and housing delivery) that could be implemented as Large Contract projects so as to rake advantage of accelerated service delivery and contractor development.

3.7 ECDC IECDM

Overview: The Eastern Cape Development Corporation Integrated Emerging Contractor Development Model (ECDC IECDM) was not part of the CDP assessment, but a brief description of the Programme is included here.

The ECDC IECDM was driven firstly by the risk management needs of clients in the region, and secondly by the ECDC’s mandate as a development corporation. The model (or Programme) is based on the principle of creating a controlled environment where measurable standards are set, actual measurements done, deviations assessed and corrected, in order to reach the stated objectives. The model thus had as one of its corner stones a Total Quality Management (TQM) intervention embedded.

The ECDC IECDM runs over a two year period, and currently has about 62 contractors enrolled – predominately in Grades 2 to 6.

In the previous ECDC IECDM Programme that ended in 2008, 54 Grade 1 to 5 contractors were enrolled – of which 51 increased their cidb grading by one level, two contractors have increased their grading by two levels and one contractor by more than two levels.

Institutional Capacity and Management Model: The ECDC CDP “Integrated Emerging Contractor Development Model” is well documented, and brings together a range of stakeholders, including:

- Project Managers;
- Clients: Every project has a clearly identified client, committing projects to the value of R5 million and more for a period of at least 24 months.

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Accredited Construction Mentors, to oversee the institutional (formal) training of the emerging contractor and the transfer of such skills to the business of the contractor – with the objective of developing a self-sufficient and sustainable contractor, who can operate independently after 24 months. They are selected on the basis of:
- passing an examination and psychometric evaluation (aptitude test) conducted by the University of the Free State (or another acceptable evaluation);
- having taken part in a structured training course to establish understanding and compliance requirements of the mentoring objectives;
- passing a personal interview for selection into the Programme;
- by showing dedication and commitment to act as business advisor and confidant of the emerging contractor, and in some instances taking an executive responsibility.

Construction Education and Training Authority (CETA), to:
- provide finance in support of a tripartite agreement to facilitate training by a training provider;
- provide assistance with the Recognition of Prior Learning (RPL) process; and
- assess training outcomes and the awarding of qualifications.

CETA accredited Training Providers are carefully selected in order to assure that the Training provider is capable of providing the required training, working within a structured managed programme.

Independent Quality Managers, who monitor all the elements of the Programme. Quality Managers meet with contractors and their mentors quarterly to assess monthly progress reports from mentors, contractors, training providers, quality managers and the project managers. Comprehensive feedback regarding the programme progress is then provided to the client.

Professional Services; and
Banks and other financial Institutions.

Contractor Development Model: Contractors are subject to selection in order to enter the programme based on the following criteria:
- assessment and acknowledgement of previous learning (RPL) in order to select a suitable training package;
- must satisfy the minimum CETA requirements to enter a “learnership”, leading to a national construction contractor qualification;
- must pass a potential test as part of the selection criteria;
- commitment to the intensive 24-month training programme; and
- have to be positively disposed towards a mentor/protégé relationship.

Demand Side Practices: Currently, the ECDC has MoUs to provide such projects with the EC Provincial Department of Public Works and the EC Departmental Housing, each committing projects to the value of R5 million and more for a period of at least 24 months.

Supply Side Practices: Contractors are trained in terms of the National Qualifications Framework (NQF) on Level 2 Construction Contractor Learnership. The Programme is structured according to the 70:30 CETA requirements for the time distribution between classroom and on site training. The on site portion of the training is substantially enhanced by the presence of the mentor. Classroom training takes place for two full days every week over a 24-month period. This however placed considerable strain on the contractors, who in conjunction with this training, still had to attend to their daily business activities – resulting in some delays.

A dedicated bank account is recommended for each construction contract that is entered into and all payments due to the contractor for work done have to be ceded to this account and only be withdrawn under the joint signatures of the contractor and the mentor.
Key learning from the ECDC IECDM is that the training provider has to be carefully selected in order to assure that the provider is capable to provide the required training, working within a structured managed programme (contrary to the normal practice where training providers are only accountable to CETA).

3.8 ESKOM Construction Academy

Overview: The ESKOM Contractor Academy was established in response to demonstrable shortages in contractors that are capable of line construction, electrification of towns, schools and clinics in deep rural areas, the management of way leaves and servitudes, as well as a need to improve the quality of work delivered by line construction contractors to meet ESKOM’s requirements, to improve the performance of ESKOM’s networks.

The ESKOM Contractor Academy focuses separately on (i) developing the necessary business and construction management competences within employers/owners, and (ii) uplifting and building capacity in the technical skills of employees. The ESKOM Academy currently operates or is being rolled out in Limpopo, Eastern Cape, Western Cape, and a business case is currently being developed for the role out of the academies based on the needs throughout the country. A second class of 2 groups will start in January 2009 in Limpopo. The Academy is targeting to train sufficient owners/employers and skilled crafts employees to provide in the needs of ESKOM. The objective is to create upwards mobility and mobility into other construction areas.

The pilot of the Academy drew on contractors that have already been awarded contracts in Line construction, Electrification, Post connections within ESKOM, or are registered on the vendor list as future contractors. The contractors are screened based on there performance and to meet the necessary entrance criteria for the Academy. The focus will be expanded in 2009 to include other contractors in ESKOM’s supply chain.

The Academy runs over a 10 month cycle, and to date 38 contractors and 10 employees, Linesmen, have graduated from the pilot programme. The Programme is currently registered as a Skills Programme at NQF Level 4. The academy is currently not focussing on formal qualification but rather on achieving credits on the registered Skills Programme. On completion of the programme the learners are awarded a certificate from the University of Limpopo who is doing the Quality Assurance of the programme. Out of the 28 contractors (owners/employers), 26 have successfully completed the Programme and have received the certificates from the university. The Programme is at NQF Level 4 in construction management, while the 10 employees (Linesmen) have all received certificates of completion of the practical training at NQF Level 3 in Minor Reticulation construction. They have to do the practical workplace training and on completing the Portfolios of Evidence will be submitted to the EWSETA who will award the certificates for the Skills Programme. The current national Line construction qualification is being revised, and on completion the learners can do the bridging training to qualify for the full qualification.

Institutional Capacity and Management Model: The ESKOM Contractor Academy has partnered with the University of Limpopo and other recognised specialist service providers to provide business and technical training. The Academy is run as a separate unit within ESKOM, and is not involved in the award or project management of contracts – but only in competence development. The intent of the Academy is to develop the contractors to grow and become successful and sustainable businesses, with whom ESKOM can build long term sustainable relationships.

All the contractors that enter the Academy have already secured contracts from ESKOM. An operational budget for training and other overheads is also obtained from ESKOM.
Contractor Development Model: As already noted, contractors that enter the Academy have already secured contracts from ESKOM through the normal tender and contract adjudication process. Contractors that need developmental support to attain ESKOM’s performance standards and who meet appropriate entrance criteria are then selected to participate in the Academy.

Contractors then participate in a 10 month programme in which they receive structured training over a period of one week per module in business management, SHEQ, project management, people management, the New Engineering Conditions of Contract and Regulations and process after procuring a contract. The study schools consist of two parts, e.g. the theory and then a practical business related assignment. Both parts must be successfully completed with a minimum pass mark of 50% in each category. The training is provided by specialists external training providers. The contractors that meet the training requirements of the Skills Programme graduate with credits at NQF level 4. Of significance is the emphasis on exiting the Academy is not with an increase in contractor grade, but with competence development to successfully manage and grow their businesses, to successfully compete in the open market, and through this be able to move upwards in the grading. The objective is also the transfer of skills and competencies to other employees in the business by the owners/managers/"artisan" that have successfully completed the Programme.

The Academy does not provide formal mentoring support post completion to contractors, but provides full mentoring and coaching support services throughout the Programme.

Employees for technical skills training are selected on the same basis as the owners/employers, and participate in an 18 weeks training programmes at ESKOM’s training centres. Training provided for the current pilot groups includes construction of Low Voltage, and Medium Voltage overhead power lines upto 33KV, construction of pole mounted transformers, electrification of towns, Service connections, Pre-paid metering and fault finding. The 18 weeks is equivalent to 20% of the training and is focused on equipping the learners with core and elective skills. It is expected that the learner will complete the training at the workplace under a trained coach. The current learners will become workplace coaches. It is planned to extend the scope significantly in 2009 in order to cover more areas in ESKOM’s built programme.

The Academy undertakes strict quality control procedures to ensure the quality of all training is provided. The University of Limpopo is responsible for the overall on site quality assurance whilst the Skills Programme is registered under the EWSETA’s quality assurance.

Demand Side Practices: In the pilot phase, ESKOM, or the ESKOM Contractor Academy, has not introduced any demand side practices specific to the Academy programme. In fact, no extension of time or budget is given to contractors who participate in the Academy, and all contractors have to agree to adhere to the original construction contract while participating in the Academy.

Contractors that successfully graduate from the Academy are given preferred supplier status with ESKOM, but this is subject to ESKOM’s ongoing performance monitoring and assessment procedures (involving contractor performance reports on completion of all ESKOM contracts).

Supply Side Practices: In the pilot phase, ESKOM, or the ESKOM Contractor Academy, has not introduced any supply side support practices specific to the Academy programme other than the structured training discussed to above.
4. Assessment of CDPs

An assessment of several CDPs investigated is given in this section, with the objective of highlighting the challenges and opportunities for CDPs. The assessment is based on questionnaires and interviews with construction development practitioners and contractors. The assessment focused primarily on CDPs located within Works Departments, and covered:

- the NDPW (CIP) Contractor Development Programme;
- the DPW Eastern Cape Contractor Incubator Development Programme;
- the DPW KZN Masakhe Emerging Contractor Development Programme;
- the DPW Western Cape Contractor Development Programme; and
- the KZN eThekwini Vuk’upile Learnership Contractor Development Programme.

4.1 Programme Objectives, Goals and Targets

A CDP should define objectives, goals and targets that the Programme must achieve, which should include at least the following elements:

- the developmental objectives of the CDP, such as:
  - creating an enabling environment within which selected contractors can develop;
  - developing a contracting capability in line with institutions service delivery objectives where demonstrable shortages exist;
  - developing contracting supervisory and/or artisanal skills;
- the target groups, including contractor Grades and business maturity levels; and
- links to broader government objectives and the objectives of the Construction Charter, but specifically supporting:
  - equity in ownership;
  - equity in management;
  - job creation;
  - skills development; and
  - small and medium enterprise development; and

From the CDPs assessment for this report, the majority of CDPs are aligned with:

- providing access to work opportunities for selected contractors, supported by opportunities for mentorship, training and support;
- empowerment objectives targeting specific groups, such as black, women and youth owned, and, in some cases
- job creation.

Many of the CDPs assessed target contractors from Grade 1 or 2 upwards – which largely convolute the objectives of contractor development with objectives of job creation when combined in Programmes with higher grade contractors. Contractor Grades 1 to 3 are in fact the most competitive and unsustainable sectors. A focus within CDPs on these sectors also results in budget and projects allocations that are often fragmented to create opportunities for contractors that do not necessarily have the potential to develop into higher grade contractors.

Such Programmes are often established to pursue specific socio-economic objectives as the main objective, artificially creating a construction demand, particularly in the lower grades. As a result, these CDPs become job-creation initiatives with short term impact and do not lead to long-term sustainable contracting enterprises. This cannot in fact be called contractor development, but should rather form part of the Extended Public Works Programme (EPWP), and could align with the models and goals of the EPWP. As a result of the convolution of objectives, by capturing these as CDP’s neither contractor development nor the EPWP goals are attained.
The NCDP (Section 2.5) recommends that (broadly speaking) contractor Grades 1 and 2 should focus on construction workforce development through artisan and supervisor development, while contractor Grades 2 and 3 should focus on emerging contractor development incorporating, predominantly, a mentorship model. An extension to this concept is that contractor Grades 1 to 3 offer an opportunity for a focus on “trade contractors” (such as tiling, plumbing or plastering enterprises), which requires key competencies of business, construction management, and artisan skills. Furthermore, other than the NDPW CIP, the DPW EC CIDP and the ECDC IECDM, there appears to be very little focus on the development of higher grade contractors.

In this regard it should be noted that the primary objective of a CDP is, by definition, to create developmental opportunities for emerging contractors – and not simply to create work opportunities for new entrants. The primary objective of a CDP must therefore be measured in terms of an increase in the level of skills, competencies and experience attained by a contractor – enhancing the emerging contractor’s path towards sustainability. Such development is usually measured in terms of attaining:

- accredited NQF Level qualifications in construction management;
- industry accepted performance standards; and / or
- increased financial capability (such as an increase in the contractor’s ci\textregistered  Grade).

Unfortunately, at present, there are no uniformly accepted industry performance standards for contractors. Evaluations against the SACEM model are often used as evaluating performance standards, but these are often not applied uniformly and consistently by the CDPs assessed. The ci\textregistered  Best Practice Contractor Accreditation Scheme (currently under development) will however provide a basis for a performance standard which contractors should achieve at exit from the Programme.

Goals and targets for specific groups, including class of works, contractor Grades and contractor maturity, should be informed by (see Sections 2.1 and 2.2):

- socio-economic objectives;
the distribution of (availability) potential projects across contractor Grades and works classes;

- the distribution of equity ownership across contractor Grades and works classes; and

- business competitiveness across contractor Grades and works classes.

as well as:

- the potential number and value of projects that could be available to the CDP;

- the turnover and sustainability requirements of contractors;

- targets for the percentage work that contractors are expected to derive through the CDP and from other sources; and

- the overhead costs (including mentoring, etc.) of the CDP.

Such targeting strategies would enable CDPs to:

- identify specific target groups in their region for development; and

- decide on the appropriate and manageable number of contractors to include in their Programmes.

No evidence could be found amongst any of the CDPs assessed for contractor development targets that are informed by a construction market analysis, and specifically competitiveness across contractor Grades.

Although not assessed in detail for this report, it should be noted that an objective of the ESKOM CDP is to develop a delivery capacity in line with ESKOM’s service delivery objectives in a sector where known shortages exist. Other than the ESKOM programme, there is very little evidence that any CDPs take any cognisance of capacity constraints in specific sectors – and in particular in areas such as mechanical and electrical engineering as well as in special works categories.

In addition to the above, there appears to be very little alignment in the CDPs assessed between available public sector spend and the target groups – which is undermining the sustainability of contractors in many areas. This is not only limited to a dominant focus within CDPs on Grade 1 to 3 contractors (see above), but extends beyond Grade 3 contractors in some provinces where supply and demand are out of alignment. Furthermore, (see above) significant opportunities exist for CDPs to focus on contractor development in higher Grades (say Grades 5 to 7) where equity ownership remains very skew.

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<tr>
<th>GRADES</th>
<th>2 to 4</th>
<th>5 &amp; 6</th>
<th>7 &amp; 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Registered Contractors</td>
<td>4 422</td>
<td>1 109</td>
<td>319</td>
</tr>
<tr>
<td>% Black Owned (Ownership &gt; 50%)</td>
<td>92%</td>
<td>79%</td>
<td>52%</td>
</tr>
<tr>
<td>Total Estimated Annual Public Sector Spend (Rm)</td>
<td>5 798</td>
<td>13 461</td>
<td>47 547</td>
</tr>
<tr>
<td>Equivalent Annual Spend per Registered Contractor (Rm)</td>
<td>1.3</td>
<td>12</td>
<td>149</td>
</tr>
<tr>
<td>Average Annual Turnover Required (Rm)</td>
<td>3.4</td>
<td>13</td>
<td>98</td>
</tr>
</tbody>
</table>

Recommendations:

- CDPs should set clear targets for contractor development that should take cognisance of possible capacity constraints in various classes of works. In the absence of demonstrable capacity constraints, CDPs should however not focus on new entrants, but on developing existing capacity.

- The NCDP should provide a model to assist institutions to enhance their targeting framework. Such a framework together with information obtained from a construction market analysis should assist contractor development programme practitioners to focus the various components of contractor development and highlight opportunities and gaps in terms of construction industry supply.

The cidb register’s statistics, the cidb Quarterly Monitor and the soon to be released cidb Small Contractor Business Confidence Index should be used as tools to support the development of appropriate CDP targeting strategies (see
Sections 2.1 and 2.2) – although a clear distinction needs to be made between targeting the creation of new capacity and the growth and development of existing capacity (i.e. maturity).

4.2 Institutional Capacity and Business Model

As highlighted below, institutional capacity and the alignment of business processes with the objectives of contractor development was found to be a major challenge of contractor development.

i) Project Budgets: With the exception of the WC CDP, all of the CDPs assessed (which are typically within Works Departments) aim to provide the contractors entered into the Programmes with work opportunities to sustain them during the duration of their participation – which the other CDPs rarely manage to provide. In some case the lack of projects for participants within the CDP has even almost brought the CDP to a standstill.

The objective of providing contractors within a CDP with work opportunities to sustain them during the duration of their participation has several consequences, namely:

- many contractors see CDPs as work opportunities, and not development opportunities;
- it often creates a “dependency syndrome” on the Programme, in which contractors are not well equipped to compete for projects once they have exited the Programme; and
- it undermines the sustainability of contractors within the CDP if the expectation of work opportunities is not met.

The first two items highlighted above are discussed further in Section 4.3, while the objective of providing work opportunities to sustain contractors during the duration of their participation in Works Department CDPs is discussed below.

The inability of CDPs to provide the necessary work opportunities arises largely from a lack of alignment within the Works Department’s budgets and the needs of the CDP – including inappropriate identification of projects in the Department’s planning cycle, lack of adherence to infrastructure delivery or maintenance plans, procurement delays, etc.

In the CDPs assessed, a stronger link to project budgets exists where the CDPs are located within the delivery department. In such cases, contractor development practitioners should liaise with the operational, project management, SCM and budgetary departmental branches during the planning and budgeting process. However, the majority of CDPs assessed were found to be separated from the operations of the department, and as a consequence the strategic goals and targets of contractor development did not align with the service delivery objectives of the department. This has resulted in departments not being committed to the merits of contractor development, and as a consequence, budgets for contractor development are usually insufficient.

Where the target project budgets lie external to a single institution (such as the ECDC and SEDA), a key performance criteria of the CDP should be the sourcing of projects for the CDP – i.e. the responsibility for sourcing of projects is clearly defined, and the institutional capacity has to be structured accordingly.

Recommendation:

In order to strengthen the link between project budgets for CDPs within Works Departments, such CDPs must lie in the ambit of the operations of the department. The Departments must also incorporate GIAMA into their infrastructure planning processes to exploit the entire infrastructure value chain.
ii) **Capacity**: The organisational design and staff requirements of many of the CDPs assessed are not aligned to the contractor development targets and goals, and the in-house capacity (i.e. excluding mentors and other external support) within the majority of CDPs is inappropriate. Furthermore, because of limited capacity, many contractor development practitioners conduct operational functions that should lie within the departments. However, contractor development practitioners should not conduct operational functions or activities, but should only influence, monitor performance and facilitate supply side support and other forms of assistance that result in contractor development.

**Recommendation:**
Departments must align their staff and resource requirements to the requisite competencies required and must divide these functions accordingly between contractor development stakeholders.
- The NCDP should provide departments and contractor development practitioners with guides for staff resource planning and optimum organizational structures that are best suited to effecting contractor development.

iii) **Business Processes**: Most departments assessed do not have:
- adequate business processes or standard operating procedures highlighting the tasks that each contractor development practitioner and staff must undertake; and
- business processes that assist the development of contractors in the CDP.

The development of standard operating procedures that highlight the task, roles and responsibilities of all stakeholders within the CDP must be undertaken by departments. Integrating these processes with the departments or organizations own business process would enhance the overall management of contractor development.

Most Delivery Departments that have the CDP’s located with the departments have implemented specific preferential procurement practices which they have adopted to support contractor development – the most common being prequalification requirements limiting tenders to participants of CDPs followed by limited bidding procedures. In such cases, the practice of submissions and recommendations by contractor development practitioners to the departments bid adjudication committee as to which contractors should be awarded a project should be discouraged. This might compromise the fairness and opportunities that exists for all contractors in a development programme from participating and benefiting.

In many cases, prequalification of contractors limiting tenders to participants of the CDP is not being adhered to in the tenders, and the limited bidding procedures that follow are then not adhering to supply chain regulations and national treasury regulations. Planning for learnerships also need to be integrated into a department’s infrastructure delivery budgets for National Treasury approval.

**Recommendation:**
CDPs within Works Departments must lie within the ambit of the department to ensure that the CDP business processes are aligned to the department’s business processes. Furthermore, CDPs must align their preferential procurement practices with the regulations contained within the PFMA and PPPFA – especially with the need for prequalification of contractors as well as the need for National Treasury approval of allocation of budgets for learnerships.
- The NCDP should provide appropriate business process and standard operating procedures for contractor development. An alignment of these standard operating procedure with the departments own business processes will then have to be undertaken by the contractor development practitioners to ensure ease of coordination and management.

4.3 **Contractor Development Model**
As already noted, the majority of CDPs assessed, and specifically those within Works Departments, use hybrid models that combine elements of both a CIP and an EPWP model – i.e. there is therefore an element to develop sustainable
contractors and at the same time achieve other socio-economic objectives. However, as a result of the convolution of these hybrid models neither contractor development nor the EPWP goals are attained. As already noted in Section 4.1, it is recommended that different models are required for different development needs, say, workforce development in Grades 1 to 2 (typically EPWPs), emerging contractor development in Grades 2 to 3, enterprise development in Grades 3 to 6, and performance improvement in Grades 4 to 7.

Notwithstanding this, a typical generic contractor development model for contractors within, say, Grades 2 to 5 is illustrated below, and is used as an assessment framework to follow. It should be noted however that the model (and the recommendations) can vary significantly depending on the target development levels – although the core principles would still remain.

The various components of the Contractor Development Model included the following:
- screening and evaluation of contractors to participate / enter the Programme;
- risk sharing by the contractor;
- theoretical, practical training and mentorship;
- demand side support, including access to work opportunities;
- supply side support, including access to finance;
- continuous evaluation against performance standards;
- graduation on achieving performance standards;
- evaluation methods and processes for ongoing evaluation; and
- exit from Programme, with reducing support.

Furthermore (as discussed in Section 4.1), implicit in the above is that in order to provide appropriate mechanisms and interventions at different contractor Grades, CDPs need to take cognisance of:
- the requirements for technical skills and experience of contractors at various Grades (see Section 2.3); and
- the business and process maturity of the organisation (see Section 2.4).

These key elements above are being incorporated into the cidb Best Practice Contractor Recognition Scheme grading framework currently being developed (see Section 2.5), and it is appropriate that CDPs therefore align their development models with the cidb Best Practice Contractor Recognition Scheme.
**Recommendation:**
CDPs should establish clear inclusion criteria and minimum entry level requirements in line with the focus of the CDP.

Prospective contractors then need to be screened and evaluated against the inclusion criteria and entry level requirements. Most of the CDPs assessed do not have a clear process outlined for screening and evaluating contractors against the Programme objectives for entry to the Programme.

Meaningful establishment of entry level requirements and screening of contractors is important to assess the suitability of potential candidates into a CDP, and should cover both technical and non-technical construction criteria as well as business criteria. These screening models should be designed to be able to identifying contractors that are best able to succeed. The most common form of assessment being used is the SACEM model, but other assessment tools being used successfully include psychometric evaluations.

**Recommendation:**
CDPs should adopt models for screening contractors so as to evaluate the suitability of contractors to the CDP, and to be able to identify contractors that are best able to succeed on the CDP.

- The NCDP should provide guidelines for screening models for CDPs, appropriate to the various target Grades.

**ii) Risk Sharing:** Risk sharing, amongst all parties, is an important component of any best practice enterprise development model – but is almost totally absent in CDPs. In the CDPs assessed, the risk of contractor development is carried almost exclusively by the Works Departments and by the CDP by reducing the risk for contractors in the initial stages of development and gradually removing the support mechanisms at each stage of advancement.

### the dti Investment Support Schemes

- The **Black Business Supplier Development Programme (BBSDP)** is an 80:20 cost-sharing grant, which offers support to black-owned enterprises in South Africa.
- The **Critical Infrastructure Programme (CIP)** is a non-refundable cash grant that is available to the approved beneficiary upon the completion of the infrastructure project. The scheme covers between 10% and 30% of the total development costs of the qualifying infrastructure.
- The **Sector Specific Assistance Scheme** is a reimbursable cost-sharing grant scheme whereby financial support is granted to non-profit business organisations in sectors and sub-sectors of industries prioritised by the dti.
- The **Co-operative Incentive Scheme (CIS)** is a 90:10 matching cash grant for registered co-operatives. The maximum grant that can be offered to one co-operative entity under the scheme is R300 000 (three hundred thousand Rand). The CIS is an incentive for cooperative enterprises in the emerging economy to acquire competitive business development services.
- The **Manufacturing Investment Programme (MIP)** provides investment support to both local- and foreign-owned entities, by offering an investment grant of up to 30% of the value of qualifying investment costs in machinery, equipment, commercial vehicles, land and buildings, required for establishing a new production facility; expanding an existing production facility; or upgrading production capability in an existing clothing and textile production facility.
Furthermore, in the CDPs assessed or examined, the contractor does not take on any risk other than the normal commercial business risks involved in running a construction enterprise (which are gradually increased over the development programme). Specifically, there are no entrance fees, tuition fees, or any other commitments in “cash or kind” for contractors to participate in most CDPs – i.e. there are no risks involved or commitments required for contractors to participate in these CDPs. This is contrary to most entrepreneurial development programmes (such as the dti Investment Support Schemes, the DST Innovation Fund, etc.). CDPs are therefore largely seen by contractors as low-risk opportunities to gain access to work opportunities – and not as development programmes.

Eliminating risk sharing in CDPs therefore removes a fundamental entrance or screening criteria in enterprise development models – namely the natural identification of entrepreneurs that are prepared to take risk. Furthermore, in comparison with other industries, and in particular the manufacturing sector, the lack of risk sharing in the CDPs perpetuates the notion of the construction industry being an industry with low entry barriers.

One form of risk sharing would be to remove demand side support in the form of preferential access to contracts (as is the case with the ESKOM Academy and the DPW WC CDP). Contractors would then only enter the CDP once they have secured a contract in a competitive environment. Participation within the CDP should then not reduce any of the contract conditions.

### Recommendation:
Risk (or cost) sharing should be an integral part of any CDP, and could be in the form of:
- sharing for mentoring costs and/or other Programme participation costs; or
- entry into the CDP being conditional on securing a contract with the Works Department in an open and competitive environment, and commitment by the contractor to then comply with the original conditions of contract once within the CDP.
- The NCDP should provide appropriate guidelines for introducing risk or cost sharing principles in CDPs.

### iii) Demand Side Support
In all of the CPDs assessed that provide access to projects through limited bidding or similar processes, no evidence exists of setting clear targets for the amount of work (in terms of number of contracts or value of work) that is to be provided to contractors during the duration of the Programme. Furthermore, as a consequence of this and an expectation of contractors that the CDP would provide the contractors with all their project requirements during the duration of their participation, sustainability of work has been highlighted as a major constraint by contractors participating within all the CDPs. This expectation of contractors illustrates that many contractors see CDPs primarily as an opportunity to gain access to work opportunities, and not as opportunities for growth and development.

### GRADES

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<th>2 to 4</th>
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<td>Average Annual Turnover (Rm)</td>
<td>3.4</td>
<td>13</td>
<td>98</td>
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<tr>
<td>Illustrative Number of Contracts Required pa</td>
<td>5.3</td>
<td>2.2</td>
<td>2.3</td>
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In contrast, it should be noted that CDPs such as the ESKOM Academy, the DPW WC CDP, the SEDA CIP and the KZN eThekwini Large Contractor Model do not provide demand side support, or only limited support.

As illustrated below, the merits and demerits of providing demand side support, and in particular expectations of providing work opportunities to contractors for the duration of their participation in CDPs, need to be carefully considered.
Furthermore, as already noted in Section 4.2, the majority of CDPs assessed (all of which are in Works Departments) are separated from the operations of the department, and as a consequence demand side practices are fragmented and not coordinated. Some demand side practices are conducted by the department with no alignment to the CDP.

Demand side support practices remain contentious issues in CDPs and are often used merely as a tool to bypass procurement regulation. The more successful programmes practice only “preferencing” as a means of ensuring continuous work, while the worst practice are outright allocation of work to developing contractors. Needless to say that the goals of contractor development are not achieved in the latter and the quality of work is often questionable.

Shorter payment cycles are generally well established, but payment procedures are often not aligned with the standard practice of inspection, payment certificates and invoicing. No comprehensive quality monitoring procedures are implemented within the CDPs assessed, and this often compounds the already antagonistic relationship between contractor development practitioners and operations.

Recommendation:
CDPs should:
- comply with a 14 day payment cycle rule;
- adopt appropriate payment dispute resolution mechanisms, whereby the amounts not under dispute must be paid and those that are under dispute can be withheld until the contractor complies with the invoice requirements;
- be encouraged to use the JBCC or GCC standard contract documentation to simplify conditions of contracts, and contractor development practitioners should provide training that will ensure contractors have the basic knowledge and understanding of these contract conditions;
- not compromise on project quality requirements.
  - The NCDP should develop guidelines for payments dispute resolution for use within CDPs.
iv) Mentoring and Training: Access to theoretical and practical training supported by mentoring is core to any CDP. Evidence suggests that the quality of mentoring and training provided to contractors within CDPs is variable – and for example is one of the key issues identified in the ECDC IECDM that required attention. Thus quality of training and mentoring management systems were put in place in the ECDC IECDM to ensure quality of the mentors and training providers.

All CDPs offer some sort of training for contractors, but:

- not all training is aligned to the development needs of the contractor;
- not all training is aligned to the needs of the construction industry;
- not all training is relevant to the technical and non-technical construction needs; and
- not all training is linked to a NQF or SAQA accredited certification.

This nonalignment means contractors are offered training and skills that they are least likely to use both in the public and private sector construction industry.

It is important that training should be meaningful and relevant to the target graduation level of development of the contractor, and that this training is accredited. However, this requirement this is compounded by the problem that SAQA accredited training does not exist for many subject areas, and CDPs are therefore often left to their own assessments where SAQA accreditation does not exist.

The contractors need these formal qualifications to be able to verify their theoretical competence in preparation for both public and private sector construction participation.

The quality of training provided by some SAQA accredited trainers is also often not acceptable, as is the quality of mentorship in some CDPs.

Accreditation of mentors has been established under the mentorship programme managed by the University of Free State and more recently registration rules for construction mentors have been established by the South African Council for the Project and Construction Management Professions (SACPCMP).

Recommendation:
CDPs should:

- align their formal training provided with the contractor competence model of the cidb Best Practice Contractor Recognition Scheme (currently being developed);
- implement systems to ensure the quality of training provided by training providers – possibly through a “Training and Mentorship Section” within the CDP or Works Department to continually monitor and evaluate the training and mentoring processes; and
- only use mentors registered with the SACPCMP.

v) Supply Side Support: Although supply side initiatives are internationally recognised as the most important support elements in contractor development, most CDPs do not place sufficient emphasis on possible supply side initiatives – largely because the focus of most CDPs are still the lower Grades where the emphasis on supply side initiatives is predominantly on training, mentorship and financial arrangements. These are however only a small part of the total supply side initiatives that could be adopted.

As contractor development shifts from the lower Grades towards a more comprehensive development process as envisaged in the NCDP framework, more emphasis will have to be placed on other supply side initiatives. Access to
business and entrepreneurial training, information and technology, and the facilitation of networking and business linkages between emerging contractors must become an important element of supply side initiatives.

Other than training and mentoring (see item v above), the most common supply side support being facilitated through CDPs at present is that of access to finance. Most CDPs have managed to secure consistent sources of finance for participating contractors. Finance is therefore readily made available, but is mostly guaranteed by mentors who play a financial management and advisory role to the contractor.

Notwithstanding this:

• some Programmes have failed to secure these financial agreements for all contractors in a Programme; and
• financial institutions typically decline to support contractors further after exiting the Programme, largely as mentors no longer play an oversight role and the risk profile of the contractor therefore increases.

Recommendation:
The NCDP should undertake a detailed investigation into mechanisms that would be required to decrease a contractor’s risk profile after exiting a CDP, and in particular whether contractors achieving performance standards as quantified in the cidb Best Practice Contractor Recognition Scheme would support the ongoing access of contractors to finance.

vi) Graduation and Exit Strategies: Various criteria exist for contractors to exit a CDP, such as:

• exiting after a fixed time period (typically three years);
• exiting after a maximum number, or value, of contracts completed; and/or
• exiting after a maximum number of cidb upGrades achieved.

The above on their own criteria are simply for a time span over which a contractor typically has access to “ring-fenced” contracts and developmental support, and do not relate to any industry accepted performance standards.

Furthermore, very few CDPs are actually designed to “graduate” contractors with appropriate NQF level qualifications that are recognised as acceptable standards necessary for running a contracting enterprise and for supervising building and construction works – such as those that will be required for recognition in the cidb Best Practice Contractor Recognition Scheme.

Recommendation:
CDPs should be designed to graduate contractors with:

• achieving a higher cidb grade; and/or
• achieving recognition on the cidb Best Practice Contractor Recognition Scheme (currently being developed), involving:
  - appropriate technical qualifications and experience for Grade 2 to 4 contractors (or Grade 1 to 4 for Trade Contractors); or
  - accreditation of Construction Management Systems for Grade 5 to 7 contractors.

Setting such graduation criteria will depend on the contractor Grades and business maturity levels targeted for the CDP. Importantly, the number of contractors that successfully graduate within the agreed period will be an important measure of the performance of the CDP.

Recommendation:
CDPs should establish graduation targets, and should be measured against such targets.
The ideal timeframe for a CDP will depend on the target focus group for the Programme – i.e. contractor grade and maturity level. A general perception confirmed from the assessment is that a three year CDP is too short to fully develop an entry level or newly established contractor. Specifically, it is necessary to gradually remove key support pillars of the CDP after exiting the CDP while selected institutional and stakeholder support agreements still remain in place. Contractors must be continuously monitored by the CDP during this period.

Specific support structures that could be put in place after exiting the CDP could include:

- ongoing risk reduction mechanisms with finance institutions to allow contractors access to finance;
- ongoing, but reduced, mentorship support;

Government departments can also target contractors directly by applying preference by awarding preference points to contractors that have participated and successfully graduated when procuring their services.

Such exit strategies should only apply to contractors that have:

- successfully graduated, and have achieved all the CDP performance criteria;
- display entrepreneurial potential and innovation; and
- have shown a firm commitment to growing their small business into a fully-fledged contractor enterprise.

However, none of the CDPs assessed in this report had any exit strategies in place.

**Recommendation:**

CDPs should adopt mechanism and/or business processes to ensure that entry level contractors that have succeeded and shown potential in the Programme are continuously supported after they have exited the Programme.
- The NCDP should provide guidelines for exit strategies, taking cognisance of the target contractor grade and maturity level at exit from the Programme.
5. Discussion

Contractor development programmes can clearly play a very important role in supporting the development of the construction industry and the development of emerging contractors. Currently there are more than 18 CPDs of various forms in South Africa, with more than 1,300 contracting enterprises currently participating in these Programmes. However, while there have been some very notable successes in the growth of contracting enterprises, overall, the success of CDPs is somewhat questionable.

The aim of this report has therefore been to provide an overview of contractor development programmes (CDPs) in South Africa, and to identify the challenges and opportunities for contractor development. This overview was supported by an assessment of selected CDPs, focusing primarily on Programmes located within Works Departments.

5.1 Key Lessons

Key lessons learned from this report are summarised below:

i) Development Models: Clearly, no single contractor development model will apply to development across all Grades of contractors and all levels of business maturity. Rather, as highlighted in the framework for the NCDP (see Section 2.5), different models are more appropriate to different levels of development, and can be broadly grouped as follows:

- EPWP learnership type models for, typically, Grade 1 and 2 construction workforce development;
- Emerging Contractor Development Programmes (ECDPs) for, typically, Grade 2 to 3 emerging contractors, incorporating predominately mentorship models supported by formal business and technical training;
- Enterprise Development Programmes (EDPs) for, typically, contractors in Grades 3 to 6 who exhibit potential to develop; and
- Programmes focusing on performance improvement of established contractors in, typically, Grades 4 to 7.

Many of the current contractor development models in South Africa are combinations of EPWP and ECDP models, but are being applied across all Grades – which convolute the objectives of contractor development and job creation. Rather, programmes should be clearly designed to achieve a clear objective – whether it is workforce development, job creation, development of emerging contractors, enterprise development or improving the performance of established contractors.

The need, and scope exists, for development programmes to address all these components – but it is important that these objectives should not be convoluted within a single Programme – as is the case with many current Programmes. Specifically, it is recommended that Programmes focusing on contractors in Grades 1 to 2 should not be designed as incubator programmes, but should form part of the Extended Public Works Programme (EPWP).

Best Practice:
A best practice example of Programme design to achieve its objectives is the ESKOM Construction Academy, which has separate sub-programmes for:

i) developing the necessary business and construction management competences within employers, and

ii) uplifting the technical skills of employees.

A further best practice demonstrated within this Programme is that the Programme targets contractors where known capacity constraints exist – namely line construction contractors.
ii) Demand Side Support: Various distinct models exist for providing access to projects for development purposes, each with their own advantages and/or possible disadvantages:

- contractors compete for projects through normal public procurement methods, which sometimes form part of the pre-qualification for contractors to enter into a development programme; or
- contractors within development programmes receive preferential access to projects through limited bidding schemes or similar.

In the latter case, and in particular within CDPs within Works Departments, contractors often view participation in development programmes as an opportunity to gain access to work opportunities and not as an opportunity to gain access to developmental opportunities – particularly where screening and evaluation of contractors is not sufficiently rigorous. Budgeting and allocation of projects to CDPs within a Works Department environment also introduces particular in-house capacity and business process requirements which generally are not in line with the core functions of the department, and which need to be adequately resourced and managed.

In many cases, the required in-house capacity and business processes are not adequate, and several CDPs (particularly within Works Departments) are not able to provide the intended work opportunities to participants within the thus undermining the sustainability of the participating contractors and the credibility of the Programmes.

The advantages and/or possible disadvantages of various models for providing access to projects for development purposes need to be carefully considered – and need to be clearly communicated to the prospective participants.

Best Practice:

- The ESKOM Construction Academy draws on contractors that have already been awarded line construction contracts within ESKOM, and whose performance records show that the contractors need developmental support to attain ESKOMs standards. The Academy and contractors are therefore not dependent on securing a project budget from ESKOM.
- Emerging contractors within the KZN eThekwini Large Contractor Mode emerging contractors were appointed as sub-contractors through a public tender process to a consortium of large contractors. The expected duration of the project awarded to the consortium is at least three years, guaranteeing project budgets for a sufficiently long developmental period.

iii) Quality and Performance Standards: The quality (and relevance) of mentoring and training within CDPs and the expected standard of performance of contractors is a key determinant of the success of any CDP – but is very variable amongst the various CDPs. In particular, there is no uniformity in the level, relevance and quality of training provided, in the quality of mentors, or in the performance standards that contractors are expected to achieve at the time of exiting the Programme. In many cases the only performance standards in place are criteria in terms of an increase in turnover or in ci:db grade achieved during the programme – which often compromise construction delivery standards, or are achieved with an overreliance on support from mentors.

The starting point (and in particular for emerging contractor development programmes) has to be setting an objective that contractors will on exiting the Programme have acquired the minimum competencies necessary for managing a contracting enterprise and for supervising building and construction works – of which an industry accepted norm for Grades 2 to 3 is a NQF Level 4 National Certificate and for Grades 4 to 6 a NQF Level 5 National Certificate. These competence requirements are being incorporated into the ci:db Best Practice Contractor Recognition Scheme grading framework currently being developed, and it is appropriate that CDPs align their development models with the ci:db Best Practice Contractor Recognition Scheme.

Attainment of output performance standards for contractors should then form the basis of:
• selection criteria and screening of contractors for entry into CDPs;
• quality control of mentoring and training provided within the CDP;
• ongoing evaluation and assessment of contractors during the development phase;
• assessment of contractors on exiting a CDP; and
• assessment of the overall success of a CDP.

iv) Risk Sharing:
Risk sharing, amongst all parties, is an important component of any best practice enterprise development model – but it is almost totally absent in most CDPs. In the CDPs assessed, the risk of contractor development is carried almost exclusively by the Works Departments and by the CDP by reducing the risk to contractors in the initial stages of development and gradually removing the support mechanisms at each stage of advancement.

Some of the mechanisms being used to reduce the risk to contractors during the incubation or development phase include preferential access to projects, waiving of guarantees or sureties, sub-prime interest rates, mentorship and training. While these are all important, in the absence of risk or cost sharing as well as in the absence of appropriate quality and performance standards, these CDPs are seen as low risk opportunities to access work opportunities – which often tends to attract participants that are least able to perform.

While reducing the risk of contractors during the development phase of emerging contractors in Grades 2 to 4 is a necessary component of any developmental programme, a balance in sharing of risk is required to attract those contractors that are most likely to succeed.

Best Practice:
Various degrees of risk sharing are employed in better practicing Programmes, including:
• the SEDA CDP levies participants 0.05% of contract value for the services provided;
• the ESKOM Construction Academy draws on contractors that have already been awarded line construction contracts within ESKOM, and whose performance records show that the contractors need developmental support to attain ESKOM’s standards. Furthermore, the contractors are screened to meet the necessary entrance criteria for the Academy.

5.2 Summary of Recommendations
A summary of the recommendations reached in this review are given below:

a) A separate focus is required within CDPs on contractors in (say) Grades 1 to 2, 2 to 4, and 4 upwards. Typically these separate focuses require different development models:
• Specifically, Programmes focusing on contractors in Grades 1 to 2 should not be designed as incubator programmes, but should form part of the Extended Public Works Programme (EPWP).
• A need for, and opportunities exists for Programmes that focus on the development of Trade Contractors in Grades 1 to 3.
• A need for, and opportunities exist for Programmes that focus on the development and performance improvement of higher grade contractors in Grades 4 to 7

b) CDPs should set clear targets for contractor development that should take cognisance of possible capacity constraints in various classes of works. In the absence of demonstrable capacity constraints, CDPs should however not focus on new entrants, but on developing existing capacity.

- The NCDP should provide a model to assist institutions to enhance their targeting framework. Such a framework together with information obtained from a construction market analysis should assist contractor development programme practitioners to focus the various components of contractor development and highlight opportunities and gaps in terms of construction industry supply.

c) CDPs within Works Departments must lie within the ambit of the department to ensure that the CDP business processes are aligned to the department’s business processes. Furthermore, CDPs must align their preferential procurement practices with the regulations contained within the PFMA and PPPFA – especially with the need for prequalification of contractors as well as the need for National Treasury approval of allocation of budgets for learnerships. The Departments must also incorporate GIAMA into their infrastructure planning processes to exploit the entire infrastructure value chain.

- The NCDP should provide appropriate business process and standard operating procedures for contractor development. An alignment of these standard operating procedure with the departments own business processes will then have to be undertaken by the contractor development practitioners to ensure ease of coordination and management.

d) Departments must align their staff and resource requirements to the requisite competencies required and must divide these functions accordingly between contractor development stakeholders.

- The NCDP should provide departments and contractor development practitioners with guides for staff resource planning and optimum organizational structures that are best suited to effecting contractor development.

e) CDPs should establish clear inclusion criteria and minimum entry level requirements in line with the focus of the CDP, and adopt models for screening contractors so as to evaluate the suitability of contractors to the CDP, and to be able to identify contractors that are best able to succeed on the CDP.

- The NCDP should provide guidelines for screening models for CDPs, appropriate to the various target Grades.

f) CDPs should:

- align their formal training provided with the contractor competence model of the cidb Best Practice Contractor Recognition Scheme (currently being developed);
- implement systems to ensure the quality of training provided by training providers – possibly through a “Training and Mentorship Section” within the CDP or Works Department to continually monitor and evaluate the training and mentoring processes; and
- only use mentors registered with the SACPCMP.

g) CDPs should be designed to graduate contractors with:

- achieving a higher cidb grade; and/or
- achieving recognition on the cidb Best Practice Contractor Recognition Scheme.

h) CDPs should establish graduation targets, and should be measured against such targets.
i) The merits and demerits of providing demand side support, and in particular expectations of providing work opportunities to contractors for the duration of their participation in CDPs, need to be carefully considered. In particular, it is recommended that CDPs should focus on providing developmental opportunities, and not work opportunities. CDPs should not provide expectations of sustainable work opportunities to contractors within the CDP.

   - Notwithstanding this, CDPs should provide support services to contractors to assist them in accessing work opportunities, through budgets within Works Departments as well as other opportunities.

j) CDPs should:

   - comply with a 14 day payment cycle rule;
   - adopt appropriate payment dispute resolution mechanisms, whereby the amounts not under dispute must be paid and those that are under dispute can be withheld until the contractor complies with the invoice requirements;
   - be encouraged to use the JBCC or GCC standard contract documentation to simplify conditions of contracts, requiring contractor development practitioners to provide training that will ensure contractors have the basic knowledge and understanding of these contract conditions;
   - not compromise on project quality requirements;

     - The NCDP should develop guidelines for payments dispute resolution for use within CDPs.

k) CDPs should adopt mechanism and/or business processes to ensure that entry level contractors that have succeeded and shown potential in the Programme are continuously supported after they have exited the Programme.

   - The NCDP should undertake a detailed investigation into mechanisms that would be required to decrease a contractor’s risk profile investigate after exiting a CDP, and in particular whether contractors achieving performance standards as quantified in the cidb Best Practice Contractor Recognition Scheme would support the ongoing access of contractors to finance.
   - The NCDP should provide guidelines for exit strategies, taking cognisance of the target contractor grade and maturity level at exit from the Programme.

l) Risk (or cost) sharing should be an integral part of any CDP, and could be in the form of:

   - sharing for mentoring costs and/or other Programme participation costs; or
   - entry into the CDP being conditional on securing a contract with the Works Department in an open and competitive environment, and commitment by the contractor to comply with the original conditions of contract once within the CDP.

     - The NCDP should provide appropriate guidelines for introducing risk or cost sharing principles in CDPs.

m) Another further key conclusion drawn from this investigation is that it has been very difficult to obtain quantifiable information on the development of contractors that have been, or currently are, participants on CDPs. This lack of accessible information limits a deeper understanding of contractor development. It is therefore recommended that all participants that subscribe to the NCDP readily provide details of contractors enrolled on CDPs as well as their cidb CRS numbers.

   - The NCDP should establish a CDP database, linked to the cidb Register of Contractors, to enable tracking the development of participants within CDPs.