

Municipality forges partnerships to empower emerging contractors.

In line with its efforts to develop local businesses, Knysna Municipality has introduced a support loan package to local emerging contractors. Developed in conjunction with Standard Bank South Africa (SBSA), Tusk Construction Support Services (TCSS) and Massbuild, qualifying emerging contractors may benefit from technical and financial support, as well as better access to building materials.

“Many of our local emerging contractors are not developing in terms of their Construction Industry Development Board (CIDB) grading, which means that they cannot benefit from most of the construction tenders we award throughout the year,” said Municipal Manager Dr Sitembele Vatala.

“The CIDB Act no. 38 of 2000 prohibits the public sector from awarding construction contracts to anyone not registered with the CIDB,” he explained. “The CIDB grades contractors according to a variety of factors but, hampering the growth of most of our emerging contractors on this scale is the financial viability of the contractor.”

“Companies must have access to finances that will allow them to start – and carry – a project until their first invoice has been processed,” he said. “They need to purchase materials and pay their labourers. Our emerging contractors are, more often than not, forced to do so by applying for credit from not only financial institutions, but also material suppliers. Many of these entrepreneurs either receive access to insufficient credit at increased interest rates, or are refused credit. The partnership between SBSA and TCSS will now make it easier for these business to achieve a higher CIDB grading and to qualify for more municipal contracts.”

TCSS will, amongst other things, support contractors with project administration including – but not limited to – accounts administration, professional project management and contract management. TCSS will also evaluate the financial viability of a project, assess the contractor’s capacity, provide surety, apply for construction finance through SBSA, conduct a vetting process for the project and negotiate with SBSA and Massbuild on behalf of the contractor. To eliminate risk, the contractor must sign a contract with TCSS and a purchase order must have been issued by the employer. SBSA charges an interest rate of 0.82% and a 5% initiation fee, based on the full value of the loan.

“Once this has all been completed and all conditions have been complied with, a bank account is registered in the contractor’s name and a credit facility is opened to allow for the payment of material and labour,” said Vatala. “Once the contractor starts receiving payment, SBSA will reclaim what is owed to them, pay TCSS and Massbuild and allocate the remainder of funds to the contractor’s account.”

In partnership with SBSA and TCSS, Massbuild then provides credit to the contractor (following normal credit processes), and delivers the necessary material. Dr Vatala, or his delegate, will negotiate with Massbuild to ensure a faster delivery time on material.

“As a municipality, we are also looking at how we can better facilitate the development of our local emerging contractors,” he continued. “To this end, we are looking at additional

requirements to enhance the growth and capacities of the SMMEs contracted to Knysna Municipality. We also implement a number of initiatives to assist this development, which includes implementation of a Pilot project where emerging contractors on CIDB 1-3 will be allocated full scope of works as well as also being allowed to tender for the 30% subcontracting on projects where the 70/30% split is applicable as far as the legal prescripts allow. For the realisation of this, an EOI of emerging contractors will be advertised. In addition, in future, larger companies who have been awarded a bigger project to a value above R30 Million (excluding VAT and if feasible on a project by project basis) will be obliged to subcontract at least 30% of the awarded tender to local subcontractors and this will include labour and material provision.

Local emerging contractors were encouraged to arrange a separate session between themselves, SBSA and TCSS, with Knysna Municipality providing the meeting facilities and managing the logistics. As contractors must be registered on the suppliers database to qualify for this loan package, Dr Vatala will arrange further meetings to explain the municipality's supply chain management and procurement procedures. This section will also manage a separate session with the CIDB and contractors.

"This loan package and the support from Standard Bank South Africa, Tusk Construction Support Services and Massbuild takes a giant step towards making it easier for deserving emerging contractors to not only build houses, but to build their businesses," Vatala concluded. "I thank these industry giants for their initiative and support. I also encourage our local contractors to make the most of this opportunity. Together we can build an inclusive, innovative and inspired Knysna."

Interested emerging contractors may contact the Director Human Settlements at directorih@knysna.gov.za or tel no 044 302 6344 for more information.

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