



# **BASELINE REPORT ON THE STATE OF TRANSFORMATION AND EMPOWERMENT IN THE CONSTRUCTION SECTOR - APRIL 2014 [EXECUTIVE SUMMARY]**

## **1. INTRODUCTION AND BACKGROUND**

- 1.1 Established as a result of the gazette of the Construction Sector Code (CSC) in terms of Section 9 (1) of the BBBEE Act, 53 of 2003 ("The Act"), the Construction Sector Charter Council (CSCC)'s role is to oversee and monitor the progress of transformation and empowerment in the construction sector. Made up of industry voluntary associations who represents established and emerging construction sector businesses, labour organizations and the Department of Public Works, the CSCC has the regulatory responsibility to report to the Department of Public Works (DPW), the Department of Trade and Industry (the dti) and the BBBEE Advisory Council on an annual basis on the state of transformation and empowerment.
- 1.2 Over and above the monitoring responsibilities, the CSCC is responsible for the facilitation of best practice communication of empowerment targets and programmes in the construction sector. This is meant to enhance the enforcement of the scorecard by the public and private sector companies and Measured Entities.

## **2. PURPOSE AND OBJECTIVES OF THE BASELINE REPORT**

- 2.1 The baseline report is an important process and milestone intended to assess the accurate state of transformation and empowerment in the construction sector for the period June **2009 and June 2013** (The reporting period). In particular, the report is intended to provide substantive clarity on the levels of compliance with the construction sector code by designated Measured

Entities. These results will highlight areas that require improvement/research and development, with the specific purpose of strengthening efforts to measure empowerment in the sector going forward.

To this end, the CSCC looks to establish at least the following about the measurement of empowerment in the construction sector;

- *The exact number of the construction sector Measured Entities that have reported compliance with the CSC during the reporting period.*
- *The exact number of construction sector Measured Entities that have may not have reported in terms of the CSC.*
- *The exact number of construction sector measured entities experienced challenges of reporting in terms of the CSC.*
- *The role played by Verification Agencies in the mesurement of the construction sector code and the extent to which this has enhanced or affected compliance levels in the sector.*

### **3. THE BASELINE REPORT PROCESS**

#### **3.1 THE NATURE OF THE CONSTRUCTION INDUSTRY**

The Construction Sector Code applies to all Measured Entities that conduct construction related activities and whose majority of the turnover is derived from construction related activities. The construction value chain is made up of the Built Environmental Professionals (BEPs), the Contractors and construction material manufacturers and suppliers. To this end, the measurement of the construction sector takes into account the following:

Threshold Type	Discipline	
	Contractors	Built Environmental Professionals (BEPs)
Exempted Micro Enterprise	R 0 – 5 million	R 0 – 1.5 million
Large Entities	R35 million and above	R11.5 million and above
Qualifying Small Enterprises (QSE)s	R5 m – R35 million and above	R1.5 – R11.5 million

This is based largely on the CIDB registrar of contractors, the CSCC has placed reliance on a total number of 12 500 commercially active enterprises at a particular time. This number excludes over 65 000 Grade 1 CIDB registered companies as of February 2014.

CIDB related grading as per turnover	Total number	Comment
Grade 1 (Less than/equal to R 200 000)	65485	Entry level - Excluded
Grade 2 – 4 (Between R 650 000 – R 4 million)	6061	Included
Grade 5 – 9 (From R6.5 million – unlimited)	3453	Included
Professional firms	2000	Included - Not CIDB registered
Contractors who may not be registered with the CIDB	1000	Included – Not CIDB registered
<b>Total Numbers Included</b>	12 500	

3.2 There are no existing numbers to reflect the commercial activities of these enterprises in 2009.

3.3 The CSCC intends to build a reliable database of construction sector compliance with the CSC.

#### 4. THE PROCESS & CHALLENGES IN THE METHODOLOGY THAT WAS FOLLOWED:

- **APPOINTED SERVICE PROVIDERS**

In March 2013, the CSCC appointed two (2) Service Providers to set up an online information management platform and analyse the data captured, respectively. Industry associations were then invited to encourage members to submit certificates and scorecards to a dedicated e-mail.

- **INFORMATION GATHERING**

The data was used to arrive at the conclusive analysis. The biggest challenge at the outset, and the primary reason for delayed reporting presented itself from the onset, was the absence of reliable data on the industry state of empowerment.

- **ABSENCE OF RELIABLE DATA**

This was further compounded by the reluctance in the availability of information by Verification Agencies citing confidentiality clauses with their clients (construction measured entities).

- **INSUFFICIENT DATA IN THE SCORECARD**

Instead of detailed scorecards outlining the detail of scores per elements of the CSC, the CSCC largely received BBBEE certificates that merely outlined indicate the BBBEE level contribution of the Measured Entities. relied solely on the attempts by industry bodies to assist and published requests in the media for these scorecards.

The resultant process involved the following steps:

#### 4.1 **GATHERING OF DATA**

- The report is based on the sample of **3 557** certificates & scorecards representing the reporting period (2009 and 2013).
- Although not enough, these give us enough picture and platform to draw data going forward.
- This is made up of **1770** companies who submitted @ least ONE certificate over the reporting period.
- If these all sent certificates/scorecards for each year of the reporting period, the number would have been @ least **7080**
- This conservatively represent just over **14 %** of the commercially active construction industry population of **12 500** as of 2014.
- Of these, **3 530** certificates were analysed to arrive at the baseline findings
- Of these, only **27** certificates were excluded as a result of factual inaccuracies.

#### 4.2 **THE CLASSIFICATION OF INFORMATION CAPTURED**

The process of information gathering involved the capturing of the following data about the Measured Entities:

- The name and details of the Verification Agency responsible for the issuing of the certificate.
- The discipline of the Measured Entity in respect of its Built Environment Professional (BEP) or Contractor status as defined in the Construction Sector Code (CSC).
- The size and threshold of the Measured Entities in respect of its EME, QSE or Large Enterprise status.
- The Value Adding status and BBBEE level contribution of the Measured Entity – where applicable.
- The overall BBBEE scores and weighting points obtained by the Measured Entity in respect of its measurement element of the construction scorecard.
- The level of Black Ownership and Black Women Ownership on every Measured Entity other than the EMEs.

#### 4.3 **THE DATA CAPTURING INTERGRITY**

- The BBBEE certificates and scorecards issued by Verification Agencies & Registered Auditors have been the only tools and source of information.
- These were captured onto an online platform and analysed into a baseline report to reflect the trend and state of empowerment measurement.
- In April 2014, the CSCC commissioned an Independent Factual Review of the process to assess the levels of accuracy.
- The independent review confirmed that the capturing process resulted in a complete, accurate and valid table of raw data for :
  - Size classifications.
  - Construction classifications.
  - Performance data as defined.

### 5. **SUMMARY OF THE KEY BASELINE REPORT OUTCOMES AND FINDINGS**

The Baseline Report has revealed the following general trends during the reporting period:

#### 5.1 **The construction industry showing progress towards transformation.**

*This is demonstrated by:*

- The overall BBBEE performance of the industry as a whole over the 5 years analysed.
- Over **2454** (which is 20.4. % of the commercially active industry population) and 69% of the sampled certificates is made up of QSEs and Large Enterprises.
- Over **71** % of the sample drawn reflected an upward bias to the overall B-BBEE Contributor status.
- This is made up of **32% of QSEs and 39%** of EMEs included in the analysis.
- This is directly attributed to the fact that SMMEs make up a large and significant numbers of the construction industry.

#### 5.2 **The construction industry showing enhanced and significant levels of compliance with the construction sector code (CSC).**

*This is demonstrated by:*

- The increase in the numbers of scorecards annually, which has risen by **107% (in 2009 – 2010)**, by **78% (in 2010 – 2011)** and by **82 % (in 2011-2012)**.
- The significant increase in the number of compliance by Contractors and BEPs over the 5 (five) year period.

**5.3 In respect of QSEs - The overall BBBEE level contributor status has increased to an average level 3(three) status and is showing an upward movement.**

*This is demonstrated by:*

- The majority of entities that have reported show scores of between **Level 4 (four) and Level 2 (two)** which is indicative of a total of 70% upward bias from all the scorecards that were analyzed.
- Compliance movement has moved up between the years 2010 and 2012, evidently driven by the increase in the requirements for construction sector reporting.

**5.4 In respect of Large Enterprises – Overall BBBEE contribution showing an average Level 4 (four) contributor status BUT none has so far achieved a level 1 (one)**

*This is demonstrated by:*

- A total of Large Enterprises scoring an average level 4 (four) between 2011 and 2012  
**Large Enterprise BEPs**
- Have achieved an average highest Level 3 (three) between 2011 and 2012  
**Large Enterprise Contractors**
- Have achieved the highest level 4(four) between the above period.

**5.5 QSEs showed an increased level of compliance and there is an increasing shift in the elements selected**

*This is demonstrated by:*

- Preferential Procurement being a key driver of overall increased performance. This is as a result of multiplied pressure made on sub-contractors to improve their level contributions.
- Over the period, there was a decrease in compliance with the ownership element
- Although selected, but Enterprise Development and the HRD elements remain at risk.

**5.6 Black and Black Women Ownership has increased in all sizes of the construction sector measured entities over the reporting period but shows polarization in both extremes (either no black ownership or there is 100% black ownership).**

*This is demonstrated by:*

- Measured Entities at the Contractor Level with over 50% black ownership has shown a steady increase between 2009 and 2012

- The contrary can be said about black ownership at the level of BEPs
- This is because of the business nature and type (Associations/ Partnerships/ Sole Props etc) of the BEPs compared to Contractors
- Over **393** construction Measured Entities has shown less than **10%** black ownership in 2011
- Over **417** (12%) of the construction Measured Entities has shown black ownership of **90% - 100%**
- In the same period, over 211 construction Measured Entities has shown less than 10% black women ownership and 85 has shown between 90% - 100% black women ownership.

**5.7 Employment Equity (EE), Preferential Procurement (PP) and Enterprise Development (ED) elements have increased popularity across the entire construction sector**

*This is demonstrated by:*

- Increased levels of compliance across both Contractor and BEP disciplines between the years 2010 and 2012.
  - Ownership and management control have been the least favored elements by QSEs
- BEP QSEs**
- The most common elements selected by BEP QSEs during the reporting period were **Employment Equity, Skills Development, Preferential Procurement and SED**
- Contractor QSEs**
- In the QSE Contractors, the most common elements that were favored are **Ownership, Management Control, Employment equity & SED**

**6. SUMMARY OF CONCLUSIONS AND CHALLENGES**

Notwithstanding the above trends in improvements, the data and information presents the following challenges that the CSCC will need to attend to as a matter of urgency:

**6.1 Absence of reliable data and scorecard information to assess levels of detailed compliance**

*This was as the result of the following:*

- Lack of co-operation in the submission of scorecard information to the CSCC by Measured Entities.
- Absence of enforcement and regulatory authority to compel submission of information to the CSCC
- Inaccurate and inconsistent classification of Measured Entities by unaccredited and accredited Verification Agencies alike.

**6.2 Insufficient consistency in the data to analyze the movement of construction sector entities**

*This was as the result of the following:*

- Insignificant evidence of movement of construction entities from EME to QSEs status.
- There was too little or insignificant movement of entities from QSEs to Large entity status.
- Of the Measured Entities analyzed, only 1770 submitted 1 certificate over the four year period.

### **6.3 There were glaring areas of inaccurate industry classification of Measured Entities which is the serious cause for concern**

*This was as the result of the following:*

- A number of BEPs and Contractor analysis shows incorrect classification of scorecards.
- Of this, about **172** scorecards are inconsistently reflected as Contractor scorecards when they should be BEP scorecards.
- Over **206** scorecards were not reflected as Construction Sector scorecards but rather as the dti Generic certificates.
- This is mainly occasioned by the Verification Agency's inability to understand the importance of the categories specified in the CSC.

### **6.4 Lack of Industry insistence to be measured in terms of the Construction Sector Code**

This was as the result of the following:

- Those inaccurate measurement classification not being rooted out or reported.
- Lack of consistent correction by Measured Entities that are affected by the incorrect measurement.
- Lack of enforcement mechanism by state and private sector procurement bodies on the correct CSC issued certificates.

## **7. THE WAY FORWARD AND PRIORITIES GOING FORWARD**

Going forward, the CSCC will put into place the following measures to improve and strengthen the measurement of the construction industry for ease of reporting:

- 7.1 Alignment of the Construction Sector Code with the revised BBBEE CoGP gazetted in 2014.
- 7.2 Annual mandatory reporting and submission of BBBEE Certificates and scorecards to the CSCC.
- 7.3 Ensuring that such submission of certificates and scorecards are a pre-requisite for registration on the NHBRC & CIDB.
- 7.4 Creating data in the manner that provide meaningful interpretation for ease of measurement.
- 7.5 ongoing audit of major infrastructure projects in SA to determine the extent of empowerment.
- 7.5 Classification of Measurement Entities empowerment information in a correct manner.
- 7.6 Re-instating integrity in the measurement of empowerment in the construction sector.
- 7.7 Control and accreditation of Verification Agencies measuring the construction sector.
- 7.8 Introduction of industry empowerment programmes to promote meaningful and substantive empowerment.

**END**