



## **CATEGORISATION GUIDELINES**

**This document shall serve as a guideline for categorisation of registered businesses who wish to enter into or expand their business into Road Construction**

**CATEGORISATION DOES NOT GUARANTEE AWARD  
OF WORKS**

**Revised April 2015**

# TABLE OF CONTENTS

<b>1</b>	<b>BACKGROUND .....</b>	<b>3</b>
1.1	The Categorization Process .....	3
1.2	Categorisation Fee .....	3
<b>2</b>	<b>GRADING OF CONTRACTORS IN LESOTHO.....</b>	<b>4</b>
2.1	Choice of Categorisation Parameters .....	4
2.1.1	Financial Capability.....	4
2.1.2	Works Capability.....	5
2.2	Categorisation of Contractors in the Start-Up Phase .....	5
<b>3</b>	<b>PROPOSED CATEGORISATION PARAMETERS.....</b>	<b>7</b>

# Guidelines for Categorisation of Contractors

## 1 BACKGROUND

The current reforms in the roads subsector in Lesotho have brought about increased participation of the private sector in the construction and maintenance of the roads infrastructure. Prior to these reforms, the government carried out these works; particularly road maintenance works in house using the services of internal units. Due to these historical reasons there is only limited capacity in the private sector as compared to the needs. In order to plan for effective use of the private sector the available capacity has to be assessed properly.

The Roads Directorate Act, 2010, requires the Roads Directorate to undertake assessment and classification of road contractors and to maintain a register of categorised contractors.

It is important to draw a clear distinction between Registration and Categorisation. The former is a legal requirement for all businesses whilst the latter relates to those Contractors who wish to undertake work for the Roads Directorate.

It is also necessary to be aware of the processes involved in awarding a project. That process takes place in accordance with the diagram shown below.

CATEGORISATION → PRE-QUALIFICATION → INVITATION TO BID → BID AWARD

### 1.1 The Categorization Process

The categorisation process takes place twice every year. New applicants will be categorized within six months of submitting their applications. Should the performance of a Contractor warrant downgrading or suspension, that process will take place as appropriate, regardless of the date.

A Contractor who is suspended from categorisation register, depending on severity and nature of circumstances leading to the deletion from the list will not be permitted to re-apply until at least a period of one year has elapsed. Circumstances which may lead to suspension from the register include non-payment of annual fees, non-payment of taxes, non-payment of staff statutory contributions, obtaining categorization through submission of falsified information; and lack of performance.

### 1.2 Categorisation Fee

Non-refundable administrative fees will be levied for the initial categorisation and for upgrading (re-categorization) processes; thereafter an annual subscription fee will be levied. Fees for initial categorization and for upgrading (re-categorization) will be kept low in order to encourage applications into appropriate categories to which they consider to belong.

## **2 GRADING OF CONTRACTORS IN LESOTHO**

### **2.1 Choice of Categorisation Parameters**

Choice of categorisation parameters was made by considering their relevance to the exercise, clarity of their interpretation, and the ability of serious applicants to obtain and submit the listed requirements. Experience from other bodies in the region was taken into account when determining the proposed criteria.

The decision has been made to exclude any reference to the ownership of plant or equipment. A current industry trend is for a contractor to hire plant and equipment as and when required. Thus ownership of plant and equipment has little, if any, relevance when it comes to assessing the performance capability of a Contractor. An additional reason for omitting this parameter is that some Contractors retain plant that is not fit for service simply to meet, or appear to meet, any such requirements.

The parameters used are financial capability and works capability as detailed in the following sections. Section 3 sets out the proposed parameters for each of the five Categories in which the Contractors will be placed.

#### **2.1.1 Financial Capability**

Financial Capability will be considered in three different ways: annual average construction turnover, the value of the largest contract carried by the applicant, and the minimum working capital. Comments on these parameters and their thresh-holds are given below:

##### **a) Annual Average Construction Turnover**

This is defined as the average annual construction turnover of the company for the last 3 years immediately preceding the application. Thresholds are fixed based on the financial class limits of each category. A general rule used is such that the volume of work to be executed in a year does not exceed the average turnover realized in the past three years. The period which should be taken in executing a contract is estimated in setting the acceptable level of the average annual turnover.

For example a contract of say 24 million Maloti that is executed in three years will have an average annual construction turnover of 8 million Maloti; this is the annual turnover set for a contractor wishing to carryout works contracts of this value.

Due to high initial construction contracts costs, it is practice internationally to consider turnover values which are 50% or 100% higher than the computed average. It is considered here that as the industry is young; such an approach would stifle growth. New entrants into construction industry will be evaluated on the basis of the annual average turnover of their business for the period of three years immediately preceding their applications.

### **b) Value of the Largest Contract of Works Carried Out in the Last 5 years**

This parameter is used to assess the financial as well as works capability of the firm. In order to promote growth of the industry, contractors are allowed to register to execute works which are twice as large as the works they have executed in the last five years. For example, a firm which had a largest executed contract of 2.5 million Maloti in the past five years will be categorized to carry out works of up to 5.0 million Maloti under the proposed categorisation criteria **provided they meet other criteria for that category.**

### **c) Minimum working capital**

Although this is proposed for new entrants, its relevance is questionable. At the time of categorisation a Contractor may have considerable working capital available, or appear to have, but what is far more important is the working capital available at the time of tender award. Hence this parameter has been excluded from the categorisation process.

## **2.1.2 Works Capability**

Evaluation of the applicants' works capability shall be carried out through an evaluation of **staff in full time employment.**

As part of the categorisation process a Contractor is required to have in full time employment a minimum number of qualified engineers and technical personnel or will have in their employ, staff with the necessary credentials to undertake work in the given categories by producing a letter of consent from such staff. This consent shall clearly indicate which other companies the staff is involved in which should not exceed a maximum of two (2) companies. Due to the absence of a local institution for professional registration of personnel, it is recommended that certificates, appropriately endorsed, from recognised universities and colleges be used in assessing the qualification of personnel. **The Contractor is required to submit verifiable records giving details of the relevant experience of these staff as well as their academic certificates.**

However, there is a practice among Contractors in Southern Africa of using and treating highly experienced technicians as engineers, especially if they have been under the concerned company's employ for some considerable time. Such staff is clearly not engineers because they lack the necessary technical training. However they should be recorded under technical personnel where their experience can be highlighted. Staff with Degrees in Quantity Surveying, Construction Management and Building Technology are to be considered as Construction Engineers provided that they have the necessary experience in Road Construction.

## **2.2 Categorisation of Contractors in the Start-Up Phase**

The Roads Directorate is aware of the need to increase the number of competent road maintenance and construction contractors operating in Lesotho. For that reason the Roads

Directorate will consider exceptional cases relating to Contractors in the 'Start-Up Phase' entering the market for the first time.

It is appreciated that such Contractors do not have a track record in road construction and maintenance. They generally enter the market in three different forms:

- a) The first is where an existing business elects to expand into road construction and maintenance work,
- b) The second is for those setting up in business for the first time and this first business is in road construction and maintenance.
- c) The third is those setting business following successful completion of the prescribed training courses run at the Roads Directorate Training Centre in TY.

For categorisation purposes only, these three groups should be treated as below:

**a) Applicants who are expanding their business to cover Road Construction and Maintenance**

Applicants in this category are assessed in terms of annual average business turnover and they must provide evidence that they have, or will have, in their employ staff with the necessary credentials to undertake work in the given categories. Since applicants in this category cannot be assessed with respect to the '*Largest Contract Carried out in the Last 5 years*', they will be listed in a category **two levels below** where they seem to qualify on consideration of *annual average business turnover and works(staff) capability*. If, for example their annual average business turnover and staff, or intended staff, meet the criteria for Category B, then the financial limit of work for which they will be considered is Category D.

**b) Applicants who are setting into business for the first time and this first business is Road Construction and Maintenance start from the entry level E**

Applicants in this category must provide evidence that they have, or will have, in their employ staff with the necessary credentials to undertake work in the given categories and such staff shall include the owner or majority shareholder(s) of the company. Since applicants in this category cannot be assessed with respect to 'Annual Volume of Construction Turnover or Annual Business Turnover' and in terms of '*Largest Contract Carried out in the Last 5 years*', they will be listed in a category **two levels below** where they seem to qualify on consideration of *works(staff) capability; however an applicant under this consideration will not go below Category E3*. If, for example their staff, or intended staff, meet the criteria for Category B, then the financial limit of work for which they will be considered is Category D otherwise entry level E

**c) Applicants who have successfully Completed a prescribed training course (e.g. ROMAR & ROCAU or equivalent as offered by RD) at Roads Directorate Training Centre**

Contractors who have successfully completed the prescribed training courses run at the Roads Directorate Training Centre in TY shall be eligible for entry in Category E depending on minimum working capital and qualifications of staff. **Such staff shall be the owners of these companies.**

## **2.3 Final Verification**

**FURTHER STRINGENT INVESTIGATION** will be made when it comes to the categorisation process. Those **Contractors who are subsequently found to have wilfully falsified any of the information provided by them will be disqualified and suspended for re-application for a period of time as determined by internal disciplinary procedure.**

## **3 PROPOSED CATEGORISATION PARAMETERS**

The proposed categorisation parameters are set out in Table No. 1:

The recommended grading has put little weight on the staffing and has not considered Working Capital or ownership of plant and equipment. Some of these issues will be looked at more appropriately at pre-qualification or tender evaluation stage based on the specific requirements of the pre-qualification or tender documents.

### **3.1 General Notes For Table 1 (Next page)**

- 1\* 1 No. qualified Engineer with 10 years experience in road works, 1 No. qualified Engineer with 4/5 years experience, and 4 No. Technicians with at least 10 years experience in road works
- 2\* 1 No. qualified Engineer with 10 years experience in road works, 1 No. qualified Engineer with 4/5 years experience, and 2 No. Technicians with at least 10 years experience in road works
- 3\* 2 No. qualified Engineers with 4/5 years experience in road works, and 1 No. Technician with at least 10 years' experience in road works
- 4\* 1 No. qualified Engineer with 2/3 years' experience in road works, and 1 No. Technician with at least 5 years' experience in road works
- 5\* 1 No. qualified Technician with at least 5 years' experience in road works
- 6\* 1 No. qualified Technician with at least 5 years' experience in the field of speciality or in road works
- 7\* 1 No. qualified Technician with at least 1 years' experience in road works or new entrant trained at the RD Training Centre or new entrant with a qualification in road related works ; whereby if such a qualification is Bachelor of Engineering or equivalent the applicant will be categorized under E1.

CATEGORY	Typical Type of Work Carried Out	Contract Amounts Limits (Maloti)	Minimum Requirements for Financial Capability (Maloti)		Number of professional and Technical staff for Works Capability	Fee Structure (Maloti)		
			Average Annual Construction Turnover for the last 3 years	Value of Largest Contract of Works Carried Out in last 5 yrs.		Application for Categorisation	Renewal of Categorisation	Transfer to Higher Category
A	Periodic Maintenance involving re-gravelling, resealing, rehabilitation etc. Construction Works: both paved and unpaved roads, bridge building	No Limit	10,000,000	15,000,000	1*	700	10,500	-
B	Periodic and Routine Maintenance involving re-gravelling, pothole patching, crack sealing, resealing, rehabilitation etc. Construction Works of both paved and unpaved roads and minor structures.	30,000,000 to 15,000,000	8,000,000	10,000,000	2*	700	7,600	1000
C	Construction of gravel roads, periodic maintenance on both paved and unpaved roads involving, section re-gravelling, pothole repairs, section patching, longitudinal and cross drainage repairs, reconstruction of headwalls, road-marking, crack sealing and spot repairs.	17,500,000 to 10,000,000	6,000,000	7,500,000	3*	700	6,000	1000
D	Periodic maintenance on unpaved roads involving spot re-gravelling, grass cutting, shoulder repairs, culvert cleaning	12,500,000 to 5,000,000	3,750,000	3,750,000	4*	700	4,500	1000
E1	Routine maintenance involving spot re-gravelling, grass cutting, shoulder repairs, culvert cleaning	6,000,000 to 3,000,000	3,000,000	3,000,000	5*	700	3,000	1000
E2	Specialized work, e.g. street lighting maintenance, pedestrian bridge building, minor structures building, road furniture repairs and maintenance, road markings etc	3,000,000 to 2,000,000	1,500,000	1,500,000	6*	700	2,000	1000
E3	basic routine maintenance – de-silting drainages structures, clearing the road way, minor surface repairs, clearing and grubbing, erosion protection works	Up to 2,000,000	1,000,000	1,000,000	7*	700	1,000	1000

**Table No. 1: Proposed Parameters for Categorising Contractors**