CIB2007-177

An Evaluation of Small Contractor Development programme in Swaziland

Mr Wellington Didibhuku Thwala¹ and Mr Mpendulo Mvubu²

University of Johannesburg
Department of Construction Management and Quantity Surveying
P.O. Box 17011
Doornfontein, 2028
Johannesburg, South Africa
Email: didibhukut@uj.ac.za

ABSTRACT

In Swaziland the construction sector is not only a significant source of direct employment but also a sector which contributes, through its wide range of projects and operations. The Swazi economy is unable to deliver employment for a growing number of would-be workers. Structural unemployment and poverty are persistent and growing problems in contemporary Swaziland. Small businesses have been advocated as an important means of generating employment in which Swaziland is not an exception. The paper will first outline the arguments that have been put forward for the development of small contractors in the construction industry in sub-Saharan Africa. The paper will then describe the problems and successes that have been experienced in Swaziland in relation to small contractor development programme. The paper will conclude with recommendations for a 'programme based' rather than project orientated

¹ Senior Lecturer in the Department of Construction Management and Quantity Surveying
² MTech student in the Department of Construction Management and Quantity Surveying
approach to allow for more effective empowerment and greater job sustainability.

Keywords: Contractor, Construction, Development, Employment, Programme.

1. INTRODUCTION

In Swaziland and other countries there seem a general consensus that small enterprises are the mainstay of economic growth and prosperity (ILO, 1987). Small, medium and micro enterprises in South Africa account for 97.5% of all establishments and over half of the employment in the formal (registered) private sector (Erwin, 2002). The Department of Public Works (1997) put forth that contractor development in the case of South Africa is needed for many reasons including the following:

- Small contractors can be powerful instruments of generating job opportunities.
- Small contractors can perform small projects at different and remote geographical locations that might be unattractive to big firms or too costly using the big firms.
- Low overheads enable small contractors to work at more competitive prices.
- Large number of functional small and medium scale black contractors can help to decentralise the construction industry dominated by established large contractors.
- The relatively low skills and resources required at this scale can easily lower the entry point for the historically disadvantaged people to begin to participate in the industry.
- A large number of functional black contractors can develop a platform for growth and redistribution of wealth in South Africa.

At a time when the public sector and big business are shedding jobs, small businesses are maintaining real employment growth. The small contractor development programme falls under the Ministry of Public Works and Transport. The main mandate of the ministry is to ensure the provision and maintenance of a sustainable public infrastructure, an efficient and effective seamless transport system and network, regulation for a vibrant construction and transport industry, management of public service accommodation and the provision of meteorological services. In carrying out its mission, the Ministry is committed to upholding safety and environmental standards for socio-economic development by making the
best use of the country’s available resources. The following are the responsibilities of the ministry:

- Construction and Maintenance of Government Buildings
- Construction and Maintenance of Public Roads
- Administration of the Road and Outspan Act
- Planning and Regulation of Road Transport Services
- Government Transport Administration
- Administration of the Road Traffic Act
- Administration of the Road Safety Act
- Road Transportation Act
- Government Housing
- Royal Swazi National Airways Corporation
- Civil Aviation
- Meteorological Services
- Regulation of Air Transport Services
- Regulation of Rail Transportation Services

2. EMERGING CONTRACTORS IN SOUTH AFRICA

In South Africa, the contractors enter the market at the lower end and in the general building contracting category, making the sector extremely competitive and unsustainable (CIDB: 2005) and the emerging contractor policies intended for black economic empowerment (BEE) are being used as job creation opportunities, which contributes to the over crowding of the emerging market. It is common for black businesses to be based on technical skills which are based on technical skills, which are used to satisfy needs of the community. However, technical competence is no guarantee of business success. Operational (e.g. scheduling and ordering) and business (e.g. planning, financial control and budgeting) skills are vital to the success of any enterprise. It is precisely these skills which are often lacking in the black business and it is thus imperative that these are developed if the industry is to expand to accommodate the meaningful black presence that is necessary for economic growth” (Maphanga, 2003).

Small enterprises contribute positively to the economics of the country and to the survival of large numbers of people. However, the success of small enterprise is impaired by the common weakness from which many enterprises suffer (Jackson, 2004). South Africa is faced with a large challenge of developing infrastructure in the communities which were previously disadvantaged, and also upgrading the existing infrastructure to cope with the high demand. This category of contractors is the preferred vehicle of delivery of infrastructure to communities (Agumba et al, 2003).
2.1 SKILLS SHORTAGE IN EMERGING CONTRACTORS

The imbalances of the past with regard to the school curriculum known as “Bantu education” which did not offer much mathematic and science as part of the curriculum hinder the emerging market as these subjects are essential for entry into the engineering and built environment industry. This Bantu system secured the exclusion of black people from participating in the construction industry as they did not have the necessary skills required. They were therefore only “hewers of wood and drawers of water” (Maphanga, 2003).

The construction industry is saturated with emerging and established contractors, emerging contractors need to improve their performance and become more competitive in delivering quality products within agreed budgets and schedules. After ten years into new South Africa, the performance of emerging contractors remains under constant scrutiny. (Sebake, Sithole, 2005). Project management skills have been identified as a critical factor for small enterprise to succeed. Lack of management and business skills is frequently cited as a major contributor to small enterprise failure (Bekker and Staude, 1988, Marx: 1998, Venter, 2003, Jackson: 2004). According to Glueck, 1980, Jackson, 2004, over 90 per cent of small enterprise failures is attributed to lack of management skills. Riqueline and Watson: 2002, also confirm the critical importance of managerial practices in determining enterprises survival.

2.2 FINANCIAL CONSTRAINTS

The high competition among emerging contractors has contributed to increase financial failures of the emerging market, making the market unsustainable. The (CIDB: 2005) states that the large numbers of emerging contractors have moved into higher value public tendering in the 0.5m to 2m market, which is also becoming overly competitive. In a study which looks at the construction industry in S.A, Gerurts: 2003, states that emerging contractors should not tender for higher contract values until they have gained enough experience and have financial capacity to handle the larger contracts (Seboke, Sithole, 2005).

According to Smallwood (1998), a construction Client Forum Survey conducted in the UK in the first quarter revealed that clients were experiencing time overrun on more than half their projects, only one third were completed on time, with 9% finishing early. Almost one third of projects were over budget and zero defects were achieved on handover on 10% of projects. Dissatisfaction with performance is causing negative implications for construction industry and its service providers. Investors may choose to invest in other sectors promising more satisfactory return and could result in a reduction of the market share, profit levels and less
available employment in the South African Construction Industry (Hanson: 2004).

Statistics SA, 2005 reports that, from 1995 to 2005, about 5907 construction companies were formally liquidated. CIDB: 2004, states that much more than 90% of the emerging black contractors survive the first five years. According to the SA Construction Industry Status Report, 2004), 1 400 construction companies were liquidated over the past three years. Emerging contractors feel that the banks are reluctant to deal with them unless exorbitant interest rates and through compulsory business management services. (SA Construction Industry Status Report: 2004:28). Complexity, risks involved in the construction industry have led to enormous failures especially in small contractors and those small emerging contractors harboring the wrong impression that there is quick money to be made are the mostly affected (Agumba et al, 2005).

Lack of access to finance both during pre-construction which disqualifies emerging contractors from meeting guarantee and performance bond requirements and during construction which leads to cash-flow problems, incomplete work and even liquidation are financial constraints facing emerging contractors (Sentha, 2005).

The imbalances of the past do pose as constraints to emerging contractors as it was impossible for black people to acquire assets in the past and should they have been given the opportunity, they could use the assets as collateral for loans due to the property rights (Maphanga, 2003, p.17)

2.3 RELATIONSHIPS BETWEEN EMERGING CONTRACTORS AND SUPPLIERS

Emerging contractors do not have good relationships with their suppliers. In a functioning relationship, the material supplier provides credit to the contractor (30-90 day term), contractor pays on time and the cycle gets repeated. In an emerging supplier relationship, the supplier requires cash upfront and will not deliver the material until payment is made in full. The reason for this is if the supplier provides credit to the emerging contractor, the contractor is often unable to pay on time due to capacity or performance constraints. The reluctance by suppliers in the relationship with emerging contractors is caused by the following risk factors:

- History of emerging contractor’s failure to complete projects which is very high
- Systematic contractor payment processing delays, especially for construction works commissioned by the public sector.
- The potential for material losses due to theft, lack of appropriate storage and mismanagement by emerging contractor
2.4 LATE PAYMENT BY CLIENTS

Emerging contractors run into problems due to late payments by the clients. A problem arises when the local council run into budget difficulties and be unable to pay. The emerging contractor does everything right, his work is of good quality but the local council doesn’t pay on time and the contractor ends up owing the bank and defaulting. In one case, the contractor built 400 houses, but the town councilor had used the money for other pressing needs. On a different project, the same contractor built 150 of 300 houses; only to discover that the town council had forgotten to register the houses and this caused a delay in the payment for over a year. The unlucky contractor, failing to repay loans in a timely fashion had his business put into liquidation.

3. DIFFICULTIES WHEN RUNNING THE BUSINESSES

The Construction Industry Development Board (CIDB) has presently concluded a reform measure whereby it used certain criteria to grade/categorizes/register the contractors, which are to a certain extent being contested at some quarters. All these reform measures tend to concentrate on how to make projects accessible to the black contractors. They do not change the complex conditions of the contract performance procedure; they do not equip the contractors with the required capacity/competency that can achieve success.

In South Africa, problems facing small emerging contractors in the contractor development programs (CIDB, DPW, CETA (2005) are as follows:

- Usually open adverts are placed in the media calling on people to come out and participate; it is very difficult for a selection process to capture those with the proper drive, passion and ability to work as contractors; this brings wrong people in the programs and drives them easily on the way.
- The required academic qualification is usually matric or less; no prior technical and managerial skills/experience in construction related fields as prerequisites.
- Few matric holders make rare success; most successful contractors have degree or diploma in construction related field, with 5-10 years technical and managerial work experience.
- Inadequate training done at short period’s in-between projects; unsuitable for the contractor’s time and project need; inappropriate trainers.
- Clear-cut grading criteria had been elusive; recently CIDB graded/categorized the contractors using some contested criteria;
core tech and management staff not stated, this may still lead to contractors getting projects they do not have capacity for.

- The contractors do not seem to understand the nature of complexity and risk in contracting; do not seem to be adequately informed of how to deal with them properly.
- The contractors lack skill, experience and tools to win profitable contract; they either win a grossly under-priced bid, or lose a grossly over-priced one. Cost, price, control program not provided
- They lack own ready finance and access to affordable loan. Due to lack of collateral, any one that gets credit from banks is subjected to high interest and financial risk management charges that make contracts unprofitable.
- In the ambition to grow big and make big profit, most of them take projects they do not have the necessary skills and financial resources to execute.
- The contractors tend not to employ qualified worker; they consider them expensive, but they fail while doing things all by themselves or with cheap, incompetent workers.
- They lack skills to properly program projects resources in monthly segments for healthy cash flow; they are not allowed front load due to lack of trust; they do not know how to prepare documents for timely payment; delayed payment.
- They do not seem to understand terms of contract conditions; do not know how to use applicable contract performance procedure to deal with client; they do not get properly trained in this.
- They are usually considered incapable of doing competent work, which imperils their relationship with the client’s agent; they do not seem to know how to use applicable contractual instruments regarding instruction, demand for specific performance, and payment; they are not properly taught; where they know these rules they fail to use them due to fear of being ‘red listed’.
- In attempt to make huge profit they cut specified quality, do bad work that falls short of the design standards/specification. Rejection of such works usually leads to none payment, conflict and most times failure of the contractors.
- Those that manage to win profitable contracts get only 2% profit if they are able to successfully complete the project; it seems discouraging.
4. INTERNATIONAL EXPERIENCE WITH REGARD TO SMALL & MEDIUM ENTERPRISE BETWEEN THREE COUNTRIES: SINGAPORE, MALAYSIA AND BANGLADESH

In order to get an overall perspective of the environment and conditions within which we operate, it is imperative that we look at similar situations of small enterprise development in other countries. Bangladesh, Singapore and Malaysia have grappled with similar situations as far back as the post Second World War reconstruction period. These countries in different ways have a longer history and applied experience with regard to the development of a small business strategy. We do however recognise that different circumstances supported their initiatives, despite common experiences of the war devastation. In spite of positive circumstances in the above economies for SMMEs to prosper, the strategies took at least ten years to unfold. This provides us with the opportunity to learn from other countries experiences, both useful and harmful, for Swaziland’s unfolding small business strategy.

All three countries add a different perspective about 'international best practice'. International best practice in these countries suggests that a strong institutional framework displays the following characteristics (Jaafara and Abdul (2005), Kale, (1999)):

- A combination of financial and non financial services delivered by separate institutions in close co-operation as part of a national strategy.
- Targeted finance programmes i.e. broad based, industry based and sector based schemes with focused assistance e.g. machinery, factory premises, raw materials, training programmes and technology.
- A detailed and comprehensive 'economic umbrella plan' with targets i.e. an overall vision and the inputs to be invested with clear detailed outputs within particular time frames.
- Avoidance of ad hoc and disconnected programmes. Programmes are part of the larger strategy or plan. A rapid delivery of programmes and an ability to rapidly shift programme focus and resources.
- Ease of access to user.
- Demand driven support.
- A platform for interaction between public and private sectors with a strong emphasis on the planning role of the state.
5. CONTRACTOR ACCREDITATION PROCESS IN SWAZILAND

A registration of accredited construction enterprises in Swaziland constitutes an essential tool for the industry transformation, for monitoring the performance of enabling environment programmes, and for ensuring compliance with the performance of public-sector projects. All construction enterprises engaged in public sector work, or in receipt of State funding training or support functions, will be required to be registered in a manner that will reflect their capacity and performance. The registration process must address the following:

- The operation of a preference scheme, or approved public tender list, which would reduce industry and public sector cost associated with an all out open tender process at the same time supporting risk management;
- Performance monitoring to enable the promotion of improved contractors and to ensure compliance where standards are violated; and;
- The targeting of resources to the emerging contractors which are demonstrating progress and the withdrawal of support from those which have graduated or have failed to progress.

Category 1

Project Category 1 is eligible to tender for:
1. Locally and internationally funded construction projects above R20 million.
2. Specialist Projects of any value in areas where there is little or no expertise in the other categories to generate interest and competition.
3. Will Have 5% disadvantage on the tendered price on all locally funded projects when compared to the prices tendered by category two contractors.
4. Will have 10% disadvantage on the tendered price on all locally funded projects when compared to the prices tendered by category three contractors.
5. Will have to manage 25% of relevant portions subcontracted to category 3, 4, 5&6 contractors.
   (These will be sub-contracts, tendered for by registered local sub-contractors as part of the main contractor's bid in line with the percentage sub-contracts specified as shown below).
   - 15% to category 3 and 4 contractors.
   - 10% to category 5AND 6 contractors.
Category 2

Project Category 2 is eligible to tender for:

1. Local and internationally funded construction projects above £10 million.

2. Specialists’ projects of any value in areas where there is little or no expertise in the lower categories to generate interest and competition.

3. Will have 10% disadvantage on the tendered price on all locally and internationally funded projects, when compared to the prices tendered by category 3 contractors.

4. Will have to manage the 25% of relevant portions sub-contracted to category 3, 4, 5, and 6. (These will be sub-contracts, tendered for by registered local sub-contractors as part of the main contractor’s bid with the percentage sub-contracts specified as shown below.)

   - 15% to category 3 and 4 contractors.
   - 10% to category 5 and 6 contractors.

Category 3

Project Category 3 is eligible to tender for:

1. Local and internationally funded construction projects above £5 million.

2. Specialists’ projects of any value in areas where there is little or no expertise in the lower categories to generate interest and competition.

3. Maintenance projects above £1 million

4. Entitled to a portion of the 15% sub-contract works to category 1 and 2 contractors.

6. Will not be eligible to tender for routine maintenance works such as vegetable control, pothole patching, fencing etc.

7. Will have 10% advantage on the tendered price on all locally funded projects when compared to prices tendered by category 2 contractors.
8. Will have 5% disadvantage on the tendered price for sub-contract work, when compared to the prices tendered by category 4 contractors.

9. Will have to manage 25% of relevant portions sub-contracted to category 4, 5, and 6. (These will be sub-contracts, tendered for by registered local sub-contractors as part of the main contractor's bid with the percentage sub-contracts specified as shown below.)
   - 10% to category 4 contractors.
   - 15% to category 5 and 6 contractors.

**Category 4**

Project Category 4 is eligible to tender for:

1. Local and internationally funded construction projects above E1 million.

2. Specialists' projects of any value in areas where he has sufficient expertise and experience.

3. Maintenance projects above E1 million.

4. Will not be eligible to tender for routine maintenance works such as vegetable control, porthole patching, fencing etc.

5. Will have 5% advantage on the tendered price on projects when compared to the prices tendered by category 3 contractors.

6. Will have to manage the 25% of relevant portions sub-contracted to category 5, and 6 contractors. (These will be sub-contracts, tendered for by registered local sub-contractors as part of the main contractor's bid with the percentage sub-contracts specified as shown below.)
   - 15% to category 5 contractors.
   - 10% to category 6 contractors.
Category 5

Project Category 5 is eligible to tender for:

1. Local and internationally funded construction projects above E500, 000.00 but below E3 million.

2. Specialists' projects between E500, 000.00 and E1 million in areas where he has sufficient expertise and experience.

3. Maintenance projects between E500, 000.00 and E3 million.

4. Will be eligible to tender for all road reserve maintenance contracts.

5. Will have a 2% disadvantage on the tendered price on all sub-contract works when compared to the prices tendered by category 6 contractors.

6. No sub-contract works.

Category 6

Project Category 6 is eligible to tender for:

1. Local and internationally funded construction projects below E500, 000.00.

2. Specialists' projects between E500, 000.00 in areas where he has sufficient expertise and experience.

3. Maintenance projects below E500, 000.00.

4. Will have a 2% disadvantage on the tendered price on all sub-contract works when compared to the prices tendered by category 5 contractors.

6. PROBLEMS FACING SMALL CONTRACTORS IN SWAZILAND

The problems facing small contractors are not unique to Swaziland. The vast majority of construction firms are small enterprises that rely on outsourcing personnel as required. This has severely affected skills training and the retention of expertise in the industry as construction workers become highly mobile, walking in and out of the industry, depending on performance in other sectors of the economy. The impact can be seen in
the rigid adherence to management techniques and construction practices handed down from colonial times which, as a result of inadequate skills and capacity. Delays with interim and final payments, as well as onerous contract conditions faced by construction firms, can also impose huge constraints on the industry. Many construction firms have suffered financial ruin and bankruptcy because of delays in payment, which are common with government contracts.

This relative lack of success resulted from the following problems facing small contractors in Swaziland and other parts of developing world (Swaziland Contractors Association, 1997):

- A lack of resources for either large or complex construction work.
- An inability to provide securities, raise insurance and obtain professional indemnity.
- The contracts were inevitably packaged in such a way as to exclude small contractors.
- Inadequacy in technical and managerial skills required in project implementation.
- Lack of continuity in relation to type, scale and location of work
- An inadequate approach and insufficient knowledge, time and experience required for the whole process of finding work, once found, insufficient understanding of the contract documentation and the preparation and submission of tenders.
- Slow and non-payment by government after completing a government project

7. LESSONS AND RECOMMENDATIONS

The planning processes in Singapore and Malaysia are comprehensive, detailed and act as a guide for different Ministries to set quantitative and qualitative targets for delivery institutions. The planning process involves extensive consultations and input by a broad range of stakeholders, which is then co-ordinated and submitted to cabinet and finally parliament as the Industrial Master Plan. These plans tend to unite society around a common purpose and vision.

Integral to economic planning in Singapore and Malaysia is targeted financial assistance for broad based, industry based and sector based schemes with focused assistance programmes e.g. machinery, factory premises, raw materials, training programmes, industrial linkages, technology and research and development. The interest rates for the contractor programmes are generally lower than bank loans. The overall plan identifies certain industries and sectors as crucial to the economic development of the country. Holistic support programmes including financial incentives are introduced for identified sectors and industries. The
growth of these industries and sectors act as a catalyst in the development of other sectors. It is seen as an investment by government with spill off effects. The government financial assistance is not ad hoc but part of a broader strategy.

Non financial support programmes cover a focused and wide range of issues including targeted training, quality circles, research, mentoring, design and product development, skills development, Local Enterprise Upgrading Centre, infrastructure development, export development, technology development and technical assistance. These support programmes are closely linked to the financial packages e.g. the buying of machinery requires, optimal training in the use of such equipment. Support programmes are not seen in isolation to the broader strategy and guides entrepreneurs in fulfilling the targets set. The programmes are able to rapidly shift focus and resources. The Singapore Local Enterprise Upgrading Centre acts as a first stop for SMMEs giving assistance in technical consultancy and financing. It co-ordinates government programmes administered by a range of institutions. The first stop centre avoids bureaucracy for the entrepreneur and increases delivery efficiency. Government procurement is clearly an important mechanism in redistributing resources and opportunities in society. In Malaysia the government has actively used procurement as a means to empower, skill and redirect resources to the Bumiputeras.

8. CONCLUSION

The small contractor enterprise sector in Swaziland is relatively underdeveloped, mainly constrained by limited access and high cost of capital and weak support programmes from government. There is also lack of skills. The most important deciding factors in the development of small contractors in Swaziland are to address the issue of access to finance, shortage of skills and adequate support from government must be a priority. Survival, growth and expansion of the small business sector are essential for economic growth and job creation in Swaziland. Small businesses represent over 95% of the total number of business organizations in the United States of America (Abdelsamad & Kindling, 1978). Thompson (1991) points out that small businesses employ six out of every ten people and have been responsible for more than half of all the innovations developed during the 20th century. Haswell & Holmes (1989) they attribute small business failures to the following: managerial inadequacy, incompetence, inefficiency and inexperience to be consistent
9. REFERENCES


www.bre.polyu.edu.hk/criocm/english/journal
Pretoria, Ntsika Enterprise Promotion
Intermediate Technology Publication Ltd. 9 king street, London WC2E 8HN, U.K.