UNFINISHED BUSINESS: CURRENT CHALLENGES AND PROBLEMS FACING SMALL AND MEDIUM SIZE CONTRACTORS IN SWAZILAND

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Abstract

Purpose/objectives: The aim of this paper is to outline the challenges and problems facing Small and Medium Size Contractors in Swaziland. The construction sector in Swaziland is not only a significant source of direct employment but also a sector which contributes, through its wide range of projects and operations. The paper will also look at the current government initiatives that had been put in place to address the challenges and problems in order to ensure that contractors can be successful.

Methodology/Scope: Drawing on research on small and medium size contractors, the paper will utilise both secondary and primary literature. 100 questionnaires were distributed to different role players in the construction sector in Swaziland. This included small and medium size contractor's owners, banks, consultancy firms, Department of Public Works employees.

Findings/Implications: The article attributes the success and failures of small and medium size contractors in South Africa to different factors which must be avoided in future in order for small and medium size contractors to be successful. The article closes with some recommendations and key lesson for the future.
Small businesses have been advocated as an important means of generating employment in which South Africa is not an exception.

Research limitations/implications: The paper is mainly concentrated on registered small and medium size contractors in Swaziland. The study did not look at the challenges and problems facing small and medium size contractors working in the informal sector.

Practical Implications: *S*uccess is greatly increased by having relatively stable access to markets and access to capital and that successful enterprises are characterized by entrepreneurs with a basic level of education, essential technical knowledge and previous industry experience with larger enterprise, and ability to learn new skills, innovate and take risks.

Keywords: Contractor, Construction, Development, Infrastructure, small and medium size, Swaziland.

Introduction

In Swaziland and other countries there seem a general consensus that small enterprises are the mainstay of economic growth and prosperity. 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 small and medium size owners to begin to participate in the industry; and a large number of functional Swazi owned contractors can develop a platform for growth and redistribution of wealth in Swaziland.

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; and Regulation of Rail Transportation Services (Ministry of Public Works and Roads, 2007).

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 South Africa (CIDB, DPW, CETA, 2005). Emerging contractors should not tender for higher contract values until they have gained enough experience and have financial capacity to handle the larger contracts.

Statistics South Africa (2005) states that from 1995 to 2005, about 5907 construction companies were formally liquidated. The CIDB (2004) states that much more than 90% of the emerging black contractors survive the first five years. The CIDB further highlight that 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. 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 (Ngala, Adegoke and Otiena, 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.

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

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.

International Experience with regard to Small and Medium Enterprise

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 Small Medium Micro Enterprises (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: 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 (Jaafar and Aziz, 2005). A rapid delivery of programmes and an ability to rapidly shift programme focus and resources; ease of access to user; demand driven support; and a platform for interaction between public and private sectors with a strong emphasis on the planning role of the state.

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 (Ministry of Public Works and Roads, 2007).

Categories	**Project Category Eligible to tender for**
Category 1	Locally and internationally funded construction projects above R20 million.
Category 2	Local and internationally funded construction projects above R10 million.
Category 3	Local and internationally funded construction projects above R5 million.
Category 4	Local and internationally funded construction projects above R1million.
Category 5	Local and internationally funded construction projects above R500, 000.00 but below E3million.
Category 6	Local and internationally funded construction projects below R500, 000.00.

Source: Ministry of Public Works and Roads- Swaziland: 2007.

Table 1: Contractor Grading in Swaziland

Problems Facing Small and Medium Size 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. Contemporary research that was conducted in 2007 by the authors revealed the current reasons for the failure of small and medium size contractors in Swaziland. 87 owners of the small and medium size contractors were interviewed. 68% of the contractors are less than four years; 20% are between 5 and 9 years; and 12 % had operated for more than 10 years. There was no contractor that had operated more than 15 years. 63% of the respondents believe that the four major banks in Swaziland have proper systems in place to support small and medium size contractors once they have secured work. On the other hand 37% of the respondents do not believe that the four major banks in Swaziland have proper systems in place to support small and medium size contractors. 33.4% of the respondents think that the current environment within the construction industry in Swaziland is favourable for small and medium size contractors to be successful. On the other hand 66.6% of the respondents believe that the construction industry environment is not favourable for the success of the small and medium size contractors.

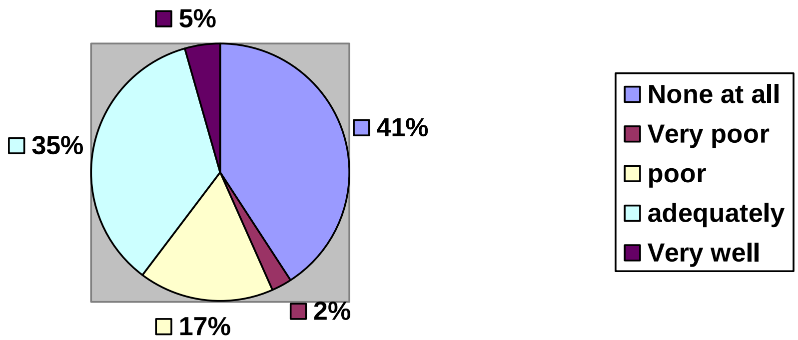

Figure 1: Develop Business Skills

From the above figure 40% of the respondents are satisfied with business skill development and 60% of the respondents were not satisfied. The figure above shows that the respondents are not satisfied with regard to the development of business skills.

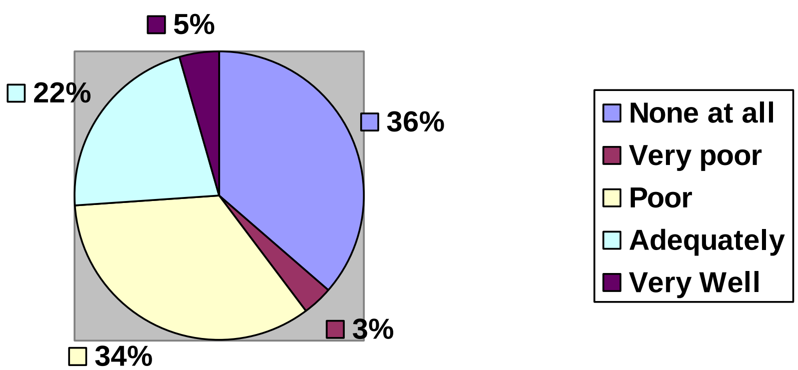

Figure 2: Develop Management Skills

From the above figure 27% of the respondents are satisfied with the development of managerial skills. 73% of the respondents are not satisfied with the development of managerial skills. It is clear from the above figure that respondents had not been trained.

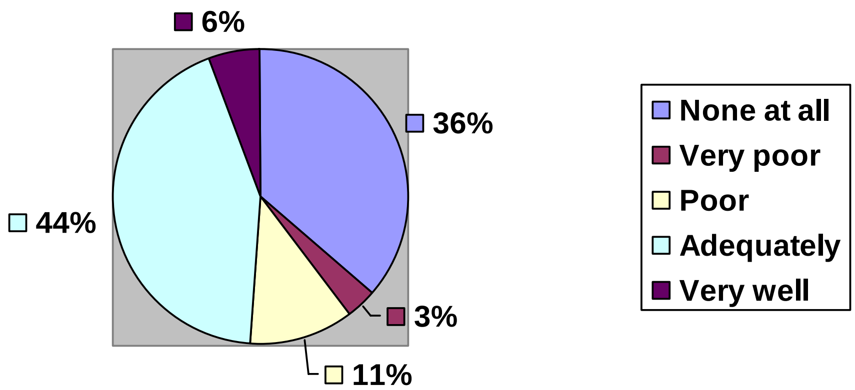

Figure 3: Develop Technical Skills

From the above figure 47% of the respondents are satisfied with the development of technical skills. 53% of the respondents are not satisfied with the development of technical skills.

From the research conducted it can be concluded that the relative lack of success among the small and medium size contractors in Swaziland is a results of the following problems which must be addressed in order for the contractors to be successful:

- 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

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.

None 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.

Conclusion

The small and medium size contractors 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 (Abdelsamd and 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 in running a business venture.

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