

**CHALLENGES FACING SMALL AND MEDIUM ENTERPRISES
IN THE LOW COST HOUSING SECTOR
IN LIMPOPO**

by

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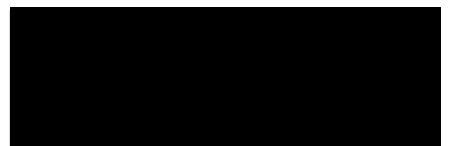
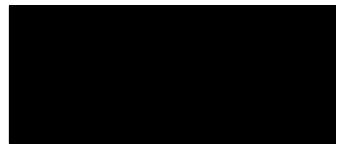
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DECLARATION

I declare that mini-dissertation report title ' Challenges facing small and medium enterprises in the low cost housing sector in Limpopo' is my own work and that it has not been conducted and submitted before any degree or examination in any other university and that all the resources I have used or quoted have been indicated and acknowledged as completed references.



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ABSTRACT

The main focus of this study was to investigate the challenges facing small and medium contractors in the low cost housing sector. Data were collected from a sample of 40 small and medium contractors in low cost housing across the Limpopo province. The study relied mainly on primary sources of data through the use of questionnaire based interviews. Both demographic and critical information pertaining to aspects such as access to finance, support or incentives from the government, payment of contractors, and others were also collected. The findings show that contractors in the low cost housing sector are faced with a number of challenges, which have both exogenous and endogenous origins. Although it is clear that they need to deal with internal weakness such as failure to complete projects on time, poor workmanship, lack of relevant skills and others, there are other challenges that need external intervention. Government support and cooperation, when it comes to the payment of small and medium contractors on time, are equally important. The recommendation of this study focuses on the need to empower and assist small and medium contractors through supplier development programmes and other initiatives.

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CHAPTER 1: INTRODUCTON

1.1. Background to the study

The dawn of the democratic dispensation in South Africa brought with it expectations with regard to provision of basic resources and needs, that, *inter alia*, included the need for shelter for the majority of the previously disadvantaged communities, which were deprived for many years. Act 26 of the Constitution of the Republic of South Africa recognizes 'access to adequate housing' to everyone (Republic of South Africa, 1996). The new housing policy captures the challenge with regard to the above when it states in its preamble that housing "...is one of the greatest challenges facing the Government of National Unity. The extent of the challenge derives not only from the enormous size of the housing backlog and the desperation and impatience of the homeless, but stems also from the extremely complicated bureaucratic, administrative, financial and institutional framework inherited from the previous government"(Republic of South Africa, 1994).

The government inherited a critical housing shortage. The 1996 Census indicates a housing backlog of 2 202 519. Since coming to power in 1994, the state has built 1,4 million housing units, providing more than 5 million people with secure homes. In order to deliver on its mandate, the government had to involve contractors, which also included small and medium contractors.

The promotion of entrepreneurship and small business remains an important priority of the government of South Africa.

The White paper sets out the objectives of the SMME development policy as: Alleviating poverty, by making it possible for poor people to generate income to meet basic needs; Reducing poverty through employment creation; Redistribution of wealth, income and opportunities; and Contributing to economic growth, by improving innovation and thus competitiveness.

It is accepted worldwide that the development and growth of small, micro and medium enterprises (SMMEs) can play an important role in addressing development challenges such as poverty and unemployment facing developing and emerging economies. Policies and programmes to support the development of SMMEs are therefore an important part of the democratic government's programmes to create a better life.

It should be noted that although the SMME strategy can be empowering, it has however posed some challenges in some sectors (i.e, low cost housing sector), especially with regard to delivery, quality, technical skills, completion of projects on time and other challenges (Mphahlele, 2001; Ofori & Lean, 2001; Moen & Servair, 2002). It is clear that unless the challenges alluded to above are addressed, small and medium contractors' chances of being successful will remain elusive and unattainable.

1.2. Statement of the problem

Small and medium contractors are key role players in the South African economy as they contribute significantly to job creation, enhance economic growth and poverty alleviation (White Paper on National Strategy for Development and Promotion of SMME's, 1995; Limpopo Provincial Growth and Development Strategy, 2004).

Notwithstanding the above, documented literature and government reports indicate that most contractors are experiencing challenges and constraints ranging from bureaucratic administration, difficulty of securing collaterals to enable them to implement projects, business skills, limited technical capacity to plan, implement and monitor infrastructure projects, poor quality workmanship and failure of projects (Construction Industrial Board, 2007; National Department of Housing, 1997; Limpopo Department of Local Government and Housing, 2009).

As a result of the above, most small and medium enterprises are struggling to sustain themselves. Like most business ventures in the informal sector, small and medium enterprises in the low cost housing sector tend to suffer the fate of being survivalists rather than thriving business ventures. It is important that the challenges listed above are addressed in order to ensure that small and medium businesses are successful.

1.3 Aim or purpose of the study

This study was conducted to investigate the challenges and constraints facing small and medium contractors in the low income housing market in order to inform policy initiatives aimed at helping small medium enterprises in the above sector.

1.4 Objectives of the study

The study focused on the following objectives:

- (a) investigate factors that contribute to failure/delay in project implementation by the small and medium contractors in the low cost housing sector.
- (b) explore the problems facing small and medium contractors in the low cost housing sector.

- (c) propose possible ways of intervention and support with regard to the development of small and medium enterprises.

1.5 Research Questions

The study is informed by the following research questions which are answered by this dissertation:

- (a) What are the factors or challenges contributing to poor performance or project failure by the small and medium contractors?
- (b) What kind of intervention or support do small and medium contractors require in order to improve their performance and quality?

1.6 Significance of the study

The findings of the study are crucial with regard to informing the development of enabling policy framework for small and medium contractors. Furthermore, the understanding of the needs of the small and medium contractors will assist decision makers to prioritize areas that require immediate intervention, which is likely to assist in improving performance of contractors and reducing the number of blocked housing projects.

1.7 Definition of concepts

For the purposes of this study, the following key concepts are defined: small and medium contractors and low cost housing programme.

Small and medium enterprises

Contractors are differentiated from each other by size or annual turnover, capacity and capability (Dlungwana and Rwelamila, 2003).

Small contractors are managed by owners themselves who virtually employ not more than five people. A comprehensive definition should indicate that it is a company operating at, or near the basic entry level in the construction industry, with limited physical resources, usually as a sole proprietorship or simple partnership, and with the owner-manager involved in most of the company's key activities. In every country, small contractors dominate the construction industry in terms of numbers, but are relatively unimportant in terms of output. Features of such firms are understood although there is the need for further information on them. The small-construction company in a developing country is often a sole ownership.

Medium enterprises employ more than ten people. These are usually skilled employees.

Low cost housing programme is a sustainable housing programme aimed at building more houses for less.

1.8. Outline of the study

The chapters in this study are arranged as follows:

Chapter 2 focuses on reviewing the relevant literature on housing, small and medium, contractors in the low cost housing sector, the development and challenges facing SMMES in general.

Chapter 3 outlines and describes the research process, the sampling process and the research techniques. The data analysis, strengths and limitations of the research methodologies are also covered in this chapter.

Chapter 4 provides an analysis of the data related to the area of research.

Chapter 5 concludes the study by critically summing up the findings of the study and providing some recommendations.

1.9. List of abbreviations

TIPS (Trade and industrial policy strategy)

SMMEs (Small, Medium and Micro Enterprises)

SSA (Sub Saharan Africa)

JSE (Johannesburg Stock Exchange)

ILO (International Labour Organization)

GDP (Gross Domestic Product)

IFC (International Finance Corporation)

AFDB (Africa Development Bank)

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

In this chapter the literature is reviewed with reference to key issues such as challenges facing small and medium enterprises/contractors, challenges in the housing sector, sustainable livelihood benefits considerations in housing development, the housing construction sector, the role of the state in the development of the sector.

2.2 Global SMEs development

The development of the private sector and SME, in particular, varies greatly throughout the World and the African continent. For instance, the investment environment is noticeably more attractive in certain countries. South Africa, Botswana, and Tunisia have more favorable investment climates due to relatively modern financial systems and attractive government policies for the private sector (Croswell and McCutcheon, 2001).

South Africa, for example, is currently ranked the 18th most attractive foreign direct investment destination worldwide in the latest Foreign Direct Investment Confidence Index, and the resource-heavy South African Johannesburg Stock Exchange (JSE) was one of world's best performing stock markets in 2006, thanks to high commodity and precious metal prices and strong earnings from industrial stocks (South Africa, 2006).

In other parts of Africa, however, the rise of small businesses has been hindered by political reasons and/or significant dependence of certain SSA (Sub Saharan Africa) economies on raw materials extraction. In Congo, Equatorial Guinea, Gabon and Chad, the dominance of oil has adversely affected the growth of non-oil businesses. Senegal and Kenya have created conditions for private sector growth but are still held back by a relatively inadequate financial system. In Nigeria, SMEs (about 95% of formal manufacturing activity) are a vital part of the economy but insecurity, corruption, and poor infrastructure continue to prevent them from playing as large of a role in growth as they might in a more conducive environment (International Labour Organization (ILO), 2001).

The development of SMEs in many developing countries is handicapped by practical difficulties in accessing the necessary finance to create, sustain and expand business. Key challenges that must be addressed include improving the enabling environment to foster a thriving private sector, and helping to develop banking sectors that heretofore have been shallow and/or unsupportive of SME lending (Luger, 1997).

Most common challenges facing SMEs globally

The following are some of the most common challenges facing SME all over the World:

(a) Lack of access to loans

The lack of effective systems of recovering loans makes it difficult for institution, especially in developing countries to assist SMEs with finances due to the fact that it is difficult to collect loans due to weak or slow judicial processes (Ntsika Enterprise Promotion Agency, 2001).

Given the above state of affairs, banks have a disincentive to make loans they perceive as risky, as credit recovery is hampered by complicated and slow legal and judicial procedures in many SSA countries. In Mozambique, it takes 540 days to recover the debt outside insolvency as compared to 80 days in South Africa. SSA countries can continue to strengthen judicial processes related to collection, thus providing stronger incentives for banks to extend loans to SMEs.

(b) Lack of business support

It is noted that due to lack of business support most SMEs tend to fail. Business support services are also key elements to a thriving SME sector, but are underdeveloped in many SSA countries. Trade associations, governments, privately owned research institutes, and commercial or not-for-profit organizations can offer needed training, organize trade fairs, and promote partnerships between SMEs and larger organizations (Trade and industrial policy strategy, 2002).

Business support services also can help provide financial literacy education to select SME owners and help SMEs improve the quality of their financial statements, business plans and loan applications. SMEs can also receive support from programs such as the International Finance Corporation's (IFC) "SME Solutions Centers", which promote access to finance for SMEs in the region and provide capacity building services. Pilot initiatives are currently underway in Kenya and Madagascar (Wells, 2000).

The African Development Bank (AfDB) has sponsored a “Growth Oriented Women Entrepreneurs Program” to enhance the economic growth and contribution of women by facilitating access to finance and relevant business development services. Business support services can help SMEs become more “bankable” and able to attract necessary financing.

(c) Lack of SME user friendly banking practices

Certain bank lending practices tend to frustrate SMEs' access to finance. Until recently, many commercial banks in most countries have not pursued SME lending due to risk perceptions of the borrower (e.g., certain SMEs may not furnish reliable financial statements and/or may not be able to provide the necessary collateral to guarantee loans). Many banks prefer to invest in government treasuries or lend to larger, more established companies they deem as “safer” investments. Even in cases where banks are provided with proper SME financial statements and related information, many banks will only offer credit in the form of expensive overdrafts. Many in most countries banks still do not have a dedicated SME unit with loan officers who understand unique SME borrower needs, nor do they offer SME-appropriate products and services (Ofori and Lean, 2001; English, 2000).

2.3 SMEs in South Africa

The most widely used framework in South Africa is the definition of the National Small Business Act, which defines five categories of business as follows (Kesper 2000, Ntsika Enterprise Promotion Agency 2001):

- (a) **Survivalist enterprise:** The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. (In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector.
- (b) **Micro enterprise:** The turnover is less than the VAT registration limit (that is, R150 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, *spaza* shops, minibus taxis and household industries. They employ no more than five people.
- (c) **Very small enterprise:** These are enterprises employing fewer than 10 paid employees, except mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology.
- (d) **Small enterprise:** The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.
- (e) **Medium enterprise:** The maximum number of employees is 100, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterized by the decentralization of power to an additional management layer.

The National Small Business Act's definitions of the different categories of business may be summarized as set out in Table 1.

Enterprise Size	Number of employees	Annual turnover	Gross assets, excluding fixed property
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to R50 million, depending upon industry	Less than R2 million to R18 million, depending on industry
Small	Fewer than 50	Less than R2 million to R25 million, depending on industry	Less than R2 million to R4,5 million, depending on industry
Very small	Fewer than 10 to 20, depending on industry	Less than R200 000 to R500000 depending on industry	Less than R150 000 to R500 000, depending on industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Table 1: Definitions of SMMEs given in the National Small Business Act Enterprise

Ntsika provides the most recent sectoral breakdown of South African business enterprises, as summarised in Table 2 below. Of a total of 906 700 SMEs operating in South Africa, retail trade constitute, 36 per cent of the total SMEs. The remainders are in agriculture, manufacturing, mining, and others (Ntsika, Enterprise Promotion Agency, 2001).

Sector	Total	%
Agriculture	98100	11%
Mining	4500	0%
Manufacturing	106000	12%
Construction	88500	10%
Wholesale trade	20800	2%
Retail Trade	323300	36%
Catering and Accommodation	21900	2%
Transport	58800	6%
Finance and business services	77800	9%
Community, social and personal services	107000	12%
	906700	100%

Table 2: Breakdown of SMEs per sector, Ntsika (2000:50)

Challenges facing SMEs in South Africa

Small and medium-sized enterprises (SMEs) play a critical role in economic development in Africa and around the world. SMEs are often a key driver in creating employment, strengthening and expanding the private sector, and increasing per capita GDP. For many countries in Africa, SMEs and the informal sector represent over 90% of business and account for 60% of employment (Trade and industrial policy strategy, 2002).

The South African government has prioritized the development of the Small, Medium and Micro Enterprise (SMME) sector in the country. Globally, entrepreneurship is considered as the engine of economic development. The SMME sector has the potential to address socio-economic challenges facing both developing and developed

countries. Without small business development, it is argued that economies stagnate, unemployment levels continue to rise and the general standard of living deteriorates.

According to Kersper (2000) and Ntsika Enterprise Agency (2001) the challenges facing South African SMEs can be divided into two (i) demand-side issues that have to do with the fragility of the SME sector and with SMEs' capacity to meet reasonable credit criteria and; (ii) supply-side issues related to the readiness of financial institutions to engage on the SME market (South Africa. 2006, Wells 2000).

Conceptually, three types of demand-side issues have been noted: the fragility of the SME sector (for example, as a result of AIDS or of a lack of skills); the firms' ability to absorb more capital (growth constraints and ability to meet reasonable credit criteria); and the SME owners' willingness to take the risk associated with accepting external capital (growth and ownership ambitions).

(a) The impact of Aids on SMME development

According to the latest projections about one million people per annum will die as a result of Aids by the middle of this decade, while the infection rate is likely to lie between 25 and 35 per cent of people in the age category 15-55 years. Given the specific nature of SMEs, where the owner-manager is typically the pivot of the enterprise, an Aids infection rate in excess of a quarter of the workforce may be a serious setback.

(b) Lack of technical and business skills

The lack of business skills, of technical skills and of appropriate experience is a primary reason for failure of start-ups. However, these factors also increase the risk of lenders. There is therefore a need to improve the situation through:

mentorship as a short-term solution (for enterprises currently in business), and entrepreneurship education as a long-term approach. While there are currently mentorship schemes in place, there appears to be a need for a larger-scale approach to mentorship, which would have to be geared towards the specific factors that are impacting upon entrepreneurs from previously disadvantaged backgrounds in particular

(c) Lack of collateral

One of the most critical demand-side constraints is the inability of SMEs to raise collateral of the value and type reasonably required by the lender. Given South Africa's socio-economic background, capital accumulation by black South Africans has been undermined and thus also their ability to meet the lenders' collateral requirements. However, collateral impacts upon the lender's risk at two levels: it reduces the lender's net exposure and, more importantly, counters potential inverse incentives.

(d) Lack of access to finance

The majority of SMEs would access finance in the names of the owners of such SMEs in their personal capacities. SMEs usually struggle to secure the necessary funding for critical projects. It should further be noted that there is no effective competition among the banks that provide finance to SMEs. In the absence of government intervention, the prospects for effective competition in these markets are remote.

These constraints imply that the cost of the debt finance available to SMEs may be higher than it might have been in situations of effective competition.

2.4 Challenges in the construction or housing sector

According to Wells (2000), English (2002), and Construction World (2000), the following are some of the most critical challenges that tend to emerge in the construction industry:

- (a) **Ability to develop long-term strategy:** In studies done by the authors indicated above, on average most emerging contractors strongly agreed that the ability to develop a long-term strategy is a problem to their firms. This is because of the nature of their work is depended available contracts with the developers.
- (b) **Ability to compete with big construction firms:** On average, most of the emerging contractors are not strong enough to compete with big construction firms. The emerging contractors are mainly involved in construction work as sub-contractors rather than as main contractors.
- (c) **Provision of a safe and decent working environment:** for most of the emerging contractors providing a safe and decent working environment is a problem to them since they usually do not have sufficient funds to buy things like overalls, safety shoes, hand-gloves as well as helmets for their workers. Lack of safety attire was seen as the major stumbling block for obtaining tenders.

(d) **Lack of incentives from government to encourage emerging**

contractors: The government does not do often have enough to create incentives to encourage the emerging contractors. In fact, for most emerging contractors even black economic empowerment through construction industry was not a reality to them yet due to the above mentioned challenge.

(e) **Lack of professional advisors and consultants in the construction**

industry: Most of the emerging contractors tend to lack access to professional advisors and consultants in the construction industry. In fact, some of SMES in the construction firms may not be aware of the existence of professional advisors and consultants in their field. Another challenge could be lack of finance and therefore could not access professional assistance.

(f) **Lack of access to funding from commercial banks:** The majority of the emerging contractors tend to lack the necessary access to funding from commercial.

(g) **High start-up cost:** The majority of the emerging contractors cannot afford start-up costs which tend to be high. It should be noted that most of the emerging contractors start from nothing and they are not backed up by any source of revenue and/or savings.

- (h) **Can't access projects bonded by formal commercial banks:** Most of the emerging contractors may find it difficult to access projects bonded by commercial banks. The banks do not have confidence in emerging contractors and as such continue to grant their projects to big and well-established developers.
- (i) **Lack of capital equipment:** Most of the emerging contractors may not have the necessary capital equipment to commence with projects. These firms have limited access to wheelbarrows, scaffolds, vehicles and other relevant equipment for construction. This matter is aggravated by the fact that they could not access bank loans to buy the necessary equipment.
- (j) **Racial discrimination:** The industry may still be dominated by white people, with black people having limited chances of success.
- (k) **No co-operation from the suppliers:** Emerging contractors may not receive the necessary co-operation from the suppliers. This could be caused by a delay in delivering building materials to the construction sites by the suppliers.
- (l) **Poor cashflow:** Cashflow could be a major problem to emerging constructors. These contractors do not often have running funds but had to wait until the construction of a unit was completed before they could be paid.

(m)**Crime:** Crime can negatively affect the construction industry. Material could sometimes be stolen from the sites. Completed houses which are not occupied could be vandalized.

(n) **Delayed payments:** Delayed payment was a major problem facing almost all the emerging contractors regardless of the level of education, experience and/or period in business (mean score=4.1). The developers/metro council did not pay the sub-contractors immediately after the completion of the building, but there was a waiting period

2.5 The developmental state and the rights-based approach to housing

A developmental state plays an active role in guiding economic development and using the resources of the country to meet the needs of the people. A developmental state tries to balance economic growth and social development. It uses state resources and state influence to attack poverty and expand economic opportunities (White paper 1994)

A developmental state should *inter alia* be able to direct and support economic development through building a strong public service, creating an investor friendly environment, supporting small business development, using state owned enterprises effectively and driving strategic investment initiatives.

The State has to play a role in keeping our economy competitive and close to the leading edge in the global development of knowledge and technology. The State has to be able to control its vast resources and directly apply them to the strategic tasks that will enable it to meet its goals (Republic of South Africa, 1999).

As a developmental state South Africa is committed to building a state that efficiently guides national economic development by mobilising the resources of society and directing them toward the realisation of common goals. The needs of the poor and social issues such as health care, housing, education and a social safety net are therefore at the top of the national agenda.

It should be further noted that the South African government has adopted and ratified several international laws, charters, treaties and declarations which guarantee the right of each citizen to adequate housing and a decent standard of living. These include (Republic of South Africa, 1999)

- (a) Universal Declaration of Human Rights
- (b) International Covenant of Economic, Social and Cultural Rights,
- (c) Habitat Agenda
- (d) Convention on the Rights of the Child

It is worth noting that the South African constitution is the most important piece of legislation providing for and protecting the right of each South African to "adequate" housing. Section 26 of the constitution states that "Everyone has the right to adequate housing (Republic of South Africa, 1996)

- (a) The state must take reasonable legislative and other measures, within its available resources, to achieve progressive realization of this right
 - (b) No one may be evicted from their home, or have their home demolished, without an order of the court, made after considering all the relevant circumstances"
- (South African Constitution, Section 26 (1), (2) and (3)

On the basis of the above, it is clear that the state has a constitutional obligation to take “reasonable” legislative and other measures to ensure the progressive realisation of every South Africa’s right to “adequate” housing and other socio-economic rights. The said reality is that rights on paper however, do not necessarily translate into a substantial improvement of the living conditions of the poor and marginalized as in some instances the poor are still located on the periphery, far removed from critical necessities such as employment and economic opportunities (Carney, 1998).

2.6 The housing policy

Over the last twelve years the South African government has made significant strides in addressing some of the major development challenges facing the country. The Housing Policy White Paper of 1994 marks the beginning of a process creating sustainable human settlements through comprehensive policy framework. With the development of the policy framework it became clear that for the first time in its history, South Africa now had a policy framework for all of its citizens. The approach adopted has been the search for the creation of an enabling environment.

It was aimed at contributing to the certainty required by the market, as well as give the Provincial and Local Governments their capacity to fulfill their Constitutional obligations.

Going through the document is apparent that a partnership between the various tiers of government, the private sector and the communities is envisaged. This is seen as a fundamental prerequisite for the sustained delivery of housing at a level unprecedented in the history of this country. It requires the involvement of all the parties for it to be successfully.

The housing policy states that one of the greatest initial challenges facing all role players is the creation of a public environment conducive to attracting the necessary private investment, both of the household as well as that of the institutions.

2.7 Sustainable livelihood benefits and housing development

In order to create a sustainable housing programme, it is important that the issue of livelihood should be considered before undertaking any housing project. The sustainable livelihoods framework is used as the basis for gaining an understanding of the benefits of locality on the ability of households to survive and achieve a better quality of life. It uses the idea of 'asset portfolios', which are sets of physical objects, relationships and abilities that are able to provide a household with coping mechanisms (Carney, 1998). They consist of five main forms of capitals which are clearly represented in Table 1 below:

Table 1: Examples of sustainable livelihoods benefits indicators used for this study

Type of capital	Examples of indicators used
Physical capital:	Overcrowding index Access to water Access to socio-economic facilities
Social capital	Access to informal networks Frequency of visits to relatives Institutional functionality and effectiveness
Natural capital	Use of land for food crops and livestock Availability of water for growing vegetables

	Proportion of households burning fossil fuels (proxy for air quality)
Human capital	Educational and skills levels Proportion of households not needing food assistance (food security) Percentage of households mentioning crime as a problem (safety)
Financial capital	Household disposable income Regular inflows of money

2.8 The Housing Construction Sector

The housing policy identifies the key or significant constraints facing the construction sectors. It should be noted that these challenges are by comparison likely to acutely affect small and medium contractors in the low cost housing sectors given the level of underdevelopment in the sector (Housing Policy, 1994)

- (a) Inadequate development framework: the lack of identified land, poor access to bulk infrastructure networks and confused and lengthy planning procedures hamper developers' ability to undertake housing development expeditiously;
- (b) limited capacity: at present, South Africa's construction sector and building materials supply industry are emerging from an economic recession and production slump: significant capacity will have to be built to enable it to deliver the number of houses required: competition from other development programmes will further dilute this capacity. Certainty around the future housing

policy and strategy to be adopted by Government has become essential to initiate the necessary sustained capacity growth and mobilisation, and to release the job creation and employment potential latent within this sector. This will most markedly be felt within the marginalised sector of small and largely black builders, through whom a great deal of the challenge should be met;

- (c) Potential bottlenecks: significant potential bottlenecks exist in certain sub-sectors of the construction and building materials supply industries: the lack of basic and managerial skills and building material production and supply constraints are but two examples; incompatibility of demand and supply: geographic distribution of demand does not match present location of construction capacity and building materials suppliers

2.9 The role of the state in the development of the construction industry

The South African government has committed to ensuring that black-owned companies have access to the construction sector. Under its black economic empowerment (BEE) programme, the South African government has set targets for the percentage of each industry to be controlled by black-owned businesses. Large, predominately white-owned corporations have sold assets to achieve this objective, with the first sale occurring in late 2000.

From 1995 the democratic government through its various departments has initiated some contractors' development programmes by which it awards certain levels of its construction projects to the historically disadvantaged black contractors in order to enable develop competent skills, build viable construction companies, create jobs and redistribute wealth (Department of Public Works (DPW), 2004).

2.10 Conceptualizing the constraints likely to face small and medium-sized contractors

The review of literature shows that the challenges facing small and medium-sized contractors can be distinguished between those that affect small-scale contractors and those that affect medium-sized contractors. Some key features of small-scale contractors are that they are largely unregistered, operate in the informal sector of the economy and have very little formal business systems. The small-scale sector comprises the largest percentage of total contractors, although they employ very few permanent staff, usually less than ten employees (Yassof, 1995).

The challenges faced by small and medium contractors can be distinguished between those that affect small-scale contractors and those that affect medium-sized contractors. Small and medium contractors are facing increased competition due to the long-term real decline in demand, and many contractors have responded by shedding labour. The larger contractors have also responded by moving into the international market. Small local contractors, in particular, are furthermore subject to volatilities due to the geographic distribution of construction and the peak workloads that characterize construction projects, which has further reduced their ability to build capacity.

Emerging contractors are subject to the same market forces described above for small contractors. However, in addition, while emerging contractor development policies were intended for black economic empowerment, small government contracts have in fact been used as a job creation opportunities. This has resulted in an overcrowding of this market, and increased financial failures of emerging contractors. Lack of effective management during their early stages is a major cause of business failure for small and medium sized contractors. Owners tend to manage their businesses themselves as a measure of reducing operational costs (Yassof, 1995).

Poor record keeping is also a cause for startup business failure. In most cases, this is not only due to the low priority attached by new and fresh entrepreneurs, but also a lack of the basic business management skills. Most business people, therefore, end up losing track of their daily transactions and cannot account for their expenses and their profits at the end of the month. During the early stages of some business start ups, owners are unable to separate their business and family/domestic situations. Business funds are put to personal use and thus used in settling domestic issues. This has a negative impact on profitability and sustainability. Some owners/managers employ family members simply because of kinship relations. In some cases, these turn out to be undisciplined and ineffectual, a factor that has led to eventual and sometimes rapid failure of businesses (Rwelamila, 2002; Croswell and McCutchen, 2001; Mphahlele, 2001 and Ofori, 1991; International Labour Organization –ILO- (2001).

According to Luger (1997), many construction firms have suffered financial ruin and bankruptcy because of delays in payment, which are common with government contracts.

It is noted that delays with interim and final payments, as well as onerous contract conditions faced by construction firms, can also impose huge constraints on the industry.

Financial barriers to construction emerging contractors' development and growth Efforts to promote SMME access to finance might have more impact on development and growth but access is limited and cost of capital is high. While government has made some efforts to increase accessibility to finances, the targeted programmes have had limited success because awareness and usage of existing promotional programmes is very low. In addition to insufficient access, high interest rates also pose a constraint to micro enterprise growth. Moreover, (Gounden, 2000) reports that there are core difficulties seen in terms of discrimination by financial institutions against micro enterprises with little collateral, difficulties in accessing information and lack of market exposure.

The inadequacy of external finance at the critical growth/transformation stages of micro enterprises deters the enterprises with growth potential from expanding Legal barriers to construction emerging contractors' development and growth With regard to legal barriers, a commonly perceived constraint of micro enterprises is the labour laws which are said to raise the cost of employment artificially prolong retrenchments or corrective action and do not allow for adequate flexibility especially in wage settings and the arrangement of working time (Rwelamila, 2002).

2.11 Difficulties of small and medium contractors in developing countries

The conditions in developing countries present additional challenges, which include: import dependency; shortages of skilled labour; a low degree of local participation in contracting; inadequate production, low quality and high price of materials; lack of capital; lack of equipment and tools; and poor quality of management. These problems are exacerbated by the policies, practices and procedures which are applied.

Measures taken to improve the efficiency of the construction industry have differed from country to country. In each country, the main measures have also changed over time. Results have, generally, been disappointing. Comprehensive, long-term approaches based on planned and coordinated actions have been rare. The main reasons for this lack of progress are: (a) the resource constraints facing these countries, (b) the weak administrative machineries, and (c) the inappropriate design of policies and measures which are also either poorly coordinated or are seldom comprehensive.

Some of the commonly-identified problems of construction industries in developing countries relate to the nature of construction. The weak nature of the economies of developing countries lies at the root of many of the problems of their construction industries. Owing to its linkages, the industry's effectiveness and efficiency depend on the level of development of several sectors of the economy. The construction industry in any country should be put in its economic, social, political and administrative context. Considering the inherently risky nature of construction it is hardly surprising that few of the small-construction companies are able to grow.

Problems of small contractors

Commonly cited difficulties of small contractors relate mainly to the inadequacies of the owner-managers, and include: lack of technical and managerial expertise necessary for running a construction business; lack of entrepreneurship; tight personal or family control of all aspects of the firm's operations; inability or unwillingness to employ qualified personnel; limitations in terms of variety of projects they can undertake; short horizon and limited plans for expanding the firm; lack of commitment to construction; difficulty in obtaining tenders; inefficiency in planning, design and construction; difficulty in obtaining vital resources - materials, equipment and skilled-site personnel; poor estimating and financial planning; inappropriate tendering and contractual procedures; inefficient on-site construction; lack of understanding of drawings and contractual documents; lack of knowledge of contract law which means inability to negotiate reasonable terms and receive all monies due, information, etc; and lack of planning and management of projects and companies (Jaafar and Aziz, 2005).

It has been noted that in developing countries, construction industries are weak because of internal inadequacies and external difficulties and constraints. The industries are unable to perform the tasks posed to them. As a result, there is a backlog of construction needs. Apart from the severe constraint this imposes on economic development as the required buildings and infrastructure are not available, much of the work yet to be realized is required to provide basic needs for a sizeable portion of the population. The construction work which takes place is also not sustainable economically because of its high expense and import dependence. It is also wasteful in scarce, non-renewable resources while not making full use of renewable ones. It often has a negative environmental impact because of a lack of awareness of good practice.

In every country, most construction companies are small. Small contractors in developing countries are not only internally weak, but are also severely affected by the well-documented problems confronting the construction industries in these countries. But these companies have great potential for meeting the construction needs of the countries, and provide a basis for the development of the national construction industries. Given the problems of the industry in developing countries, their construction enterprises of all sizes need to be very well organized if they are to operate effectively and efficiently. Running a construction business in such an environment is a great challenge. In most developing countries, small enterprises face a particularly formidable array of problems (Jaafar and Aziz, 2005).

2.12 Critical factors for successful small and medium contractors

Need for expertise

Each stage of a construction project involves difficulties, risks and uncertainties. To succeed, the construction company should be able to perform well on its projects, and also take measures to enhance its corporate prospects. A wide range of skills is required to ensure this success. Whereas larger contractors can employ persons with the relevant qualifications and experience to undertake each of the specialist tasks, the ability of the small firm to engage such personnel is limited. Thus, the development of small contractors to enhance their effectiveness and efficiency is beneficial and worthwhile (Yassof 1995).

Small contractors and their development

Small contractors need to have technical and managerial skills as well as access to material, financial and other resources, and a conducive operating environment. Experience in manufacturing shows that it is possible to upgrade the capabilities of small enterprises using a combination of support, incentives and direct assistance. However, attempts to do this in construction have been largely unsuccessful. While the elements of "a suitable strategy" for promoting the construction industry are known, a successful way of implementing this strategy is elusive (Ofori & Lean 2001).

The main aim of small-contractor development in developing countries is to seek the emergence of sufficient numbers of such companies and their upgrading to enable them to effectively compete in the open market for jobs that they are capable of undertaking, and systematically and continuously grow in size and capability. The objectives are that small contractors should be able to: (i) perform the role expected of them by providing adequate volumes of buildings and infrastructure; (ii) develop the basic building facilities and infrastructure; (iii) create employment; (iv) use local materials; (v) apply appropriate technologies; and (vi) produce to highest quality.

According to Lugner (1997), the following are critical for successfully running a small and medium enterprise:

- (a) Business skills: carrying out market research, employing qualified personnel and putting them in positions according to their skills, knowing and understanding existing skills needed and attend refresher courses on business management skills.

- (b) Management skills: financial management should be emphasized, networking with other people with similar businesses and keeping records of workers to help in evaluation of the performance.
- (c) Access to capital: merge with others that have similar businesses, negotiate favourable credit purchases from the supplier, source affordable loans from financial institutions and negotiate advance payments from the clients.
- (d) Good record keeping: financial record should be prioritized and establish a record of books of accounts on a daily basis, weekly, monthly and annual basis.
- (e) Well managed Cash flow: prepare cash flow forecast and budgets, prepare a cost-benefit analysis, lease equipment and other financial assets to improve your cash flow, negotiate outstanding loans through payment procedures and scale down operational costs.
- (f) Family/domestic situation: separate business activities and family obligations and look for alternatives sources of income to cater for family basic need. (Yassof 1995).

2.13 The role of Contractor development programmes

Contractor-development programmes have been part of national strategies for improving the construction industries of developing countries. As they have been designed to suit national aims, objectives, resources, administrative structures, nature of the industry and particular problems, the nature of these schemes have been different from one country to another. In the same country, they have changed over time.

Some programmes have been selective, concentrating on efforts to improve on the performance of certain types or sizes of firms, usually the small ones. Other schemes have been general in approach. The results obtained from them have also been different. These programmes have been largely unsuccessful.

There is no blueprint for contractor development. However, it is sufficient and relevant to consider a number of these approaches from which some principles which could guide the formulation of programmes could be outlined.

As a matter of principle, it is important that the programmes should be country-specific and incorporate specific targets. They should be based on objectives which are achievable considering the circumstances in which they will be implemented. Their implementation should be monitored and occasionally reviewed. Finally, some measures which could be adopted to improve upon the situation are suggested.

2.14 The impact of construction industry on development

The construction industry contributes significantly to the development, expansion and improvement of human settlements and because of its strong links with other sectors of the economy, the industry generates increases in employment, income and savings, and thus promotes development and economic growth. An efficient, well-functioning construction industry is, therefore, vital to the achievement of national socio-economic development goals, including human-settlement development goals in every country (Gounden, 2000).

A major feature of the construction industry in developing countries is its heavy reliance on small-scale and informal sector operations which often account for about two-thirds of the industry outputs. It is therefore imperative that any strategy to improve the performance of the industry should give due consideration to enhancing the abilities of small contractors and those operating in the informal sector and establishing a supportive environment for them (Mphahlele, 2001).

Contractors are a vital component of every country's economy. The importance of small contractors cannot be overemphasized: they undertake the numerous small, relatively simple, scattered and often isolated projects which are necessary for economic development and social upliftment within urban communities and in the rural areas.

It is vital that contractors are capable of completing the construction items required for socio-economic development in sufficient quantities, within the specified time, at reasonable and predictable cost, with good quality, paying attention to the health and safety of the public and the workers on-site, and using materials equipment and methods that are least harmful to the environment. In developing countries, local contractors with such capabilities are in short supply. The large number of small contractors in most of these countries are ineffective and inefficient. They also face several problems and constraints relating to their own management, organizations and technical expertise, as well as the resources they require, the regulations they should comply with and procedures for awarding and administering their work (Ofori & Lean, 2001).

2.15 The rationale for the development of small medium contractors

Owing to its relatively labour-intensive nature, construction work provides opportunities for employment. As it is dispersed throughout each country, construction can improve living conditions at local level. Small contractors are important feature in the economy of most developing countries due to the following (Yasoff 1995):

- (a) There are high volumes of unmet needs, and the entire delivery system should be restructured and upgraded to improve upon its performance:
- (b) Small contractors fulfill the construction needs of the poorer sections of the population, and their upgrading would bring direct benefits to a large section of the population:
- (c) Only small companies are able and willing to undertake the small projects in isolated-rural areas;
- (d) The quality of work of small-construction companies needs to be upgraded to enable them to give greater value for clients' money;
- (e) With improved expertise, small contractors can help reduce the reliance on imported inputs.

2.16 Detailed Research Questions

- (a) Do countries/ governments value the role played by small and medium contractors in the building of the economy?

- (b) Are the small and medium contractors preferred for project contracting in the commercial sector?
- (c) In comparison to global challenges facing SMMEs, what are the specific challenges unique to South Africa?
- (d) Is there any long term comprehensive strategy to develop the small and medium contractors?
- (e) Are the contractors knowledgeable and skilled about the industry?
- (f) Are there any regulatory frameworks for the small and medium contractors?
- (g) Is there any comprehensive existing records of the small and medium contractors?
- (h) Is there any funding aimed at supporting small and medium contractors?
- (i) How do contractors manage to procure the tools of trade, machinery and equipments?
- (j) Do these small and medium contractors survive for long in the industry and what sustain them?
- (k) Is there any recognition of the sector from the commercial banks and are they able to assist them in accessing capital?
- (l) Are the small and medium contractors able to coordinate themselves into organized formations?

(m) Is there any future for the small and medium contractors within the construction sector?

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research methodology which covers a variety of aspects which include the used for method data collection, data analysis, population, sampling, limitation of the study, and ethical considerations.

3.2 Data Collection Methods

Both quantitative and qualitative research methodologies were employed in this study. In order to provide an accurate presentation of information face-to-face interviews with the owners of the construction firms were conducted. Face-to-face interviews provide an opportunity to observe and verify practically the procedures in place

The study relied mainly on the primary sources of data through the use of questionnaire based interviews and secondary sources through the use of documented information including journals, newspapers and other reliable publications.

A face to face questionnaire based interview was conducted in order to obtain data on demographic information such as age, gender, location, level of income, years of operation, and education (Welman and Kruger, 2003)

Apart from demographic information, the study also focused on gathering data on critical aspects such as business strategy, ability to compete, relationship with banks, access to information, ownership of capital assets, cashflow, delayed payments, technical capacity, incentives or support from government, funding from commercial banks, relationship with suppliers, and interest rates on loans made.

This information was used to assess the extent of impact of the challenges that small and medium scale contractors are facing.

The questionnaire also contained open ended questions in order to provide an opportunity to contractors to relate or give more information on the above issues. It should be noted that open ended questions are useful in that they afford the respondent the opportunity to freely express themselves without any restrictions.

Documents such as quarterly and annual reports were scrutinized, especially in areas which are in line with the above identified themes as reflected in the questionnaire. The use of such information assists in providing strength and further validates the information collected from contractors themselves. Documents are very useful as they may complement the information collected through the use of interviews and verify outstanding information (Babbie and Mouton, 2006). The researcher was careful not to use outdated information as it may compromise the validity and reliability of the research results.

3.3 Piloting the questionnaires

The questionnaires were first tested with 5 contractors in order to ensure that appropriate questions were included (Denzin and Lincoln, 2000). The results of the pilot test indicate that there was no ambiguity with regard to the questions asked. Participants were able to understand all questions clearly; hence there was no need to make any change or modification to the questions.

3.4 Data analysis methods

The analysis of data included both qualitative and quantitative information: for example determining the percentage of male and female contractors or age variation of contractors or level of education. The intention was to assess if any of the demographic variables (independent factor) have an influence on any of the challenges listed above, such as gender and access to capital equipment or lack of management skills.

Apart from the demographic details contained in the questionnaires, a section on a list of challenges experienced by the emerging contractors was included. The magnitude of these challenges were measured by means of a likert scale of 1 – 5 (The ratings were as follows: (1) = strongly disagree, (2) = disagree, (3) = neutral, (4) = agree and (5) = strongly agree). A likert scale is the most popular type of scale in Social Sciences and is used to measure multi-dimensional attitudes (Platton 2002). The rankings and mean scores were used to measure the impact of the challenge identified. For instance, the mean score below 3 would indicate that the emerging contractor has no problems in the identified area whilst the mean score above 3 will confirm that the contractor experienced or is experiencing problems.

The analysis of information collected through open ended questionnaires and documents was also done based on the identified themes as contained in the questionnaire and this served to confirm or contradict the information collected from contractors through face to face interviews and the likert scale (Creswell, 2003).

Qualitative information was analysed and discussed based on the themes selected and to check the most common challenges and constraints experienced. Thereafter, certain conclusions and recommendations was made based on this analysis.

3.5 Population

The study focuses on the population of 127 contractors participating in the housing subsidy scheme. It should be noted that the study did not only draw its findings from the population of contractors mentioned above. Key officials from the selected department and financial institutions were interviewed to get additional information or to confirm certain information collected.

3.6 Sample Size

For the purposes of this study, 40 contractors who were currently participating in the Housing Subsidy Scheme and key officials from the Department of Local Government and Housing and financial institutions involved in the funding of contractors were interviewed.

A data base of emerging contractors was obtained from the Department of Local Government and Housing.

A purposive sampling method was used in order to save time and financial costs. The advantage of purposive sampling is that it is economical in terms of time and financial expenses (Welman and Kruger, 2003). Approximately 40 contractors representative of the total population were interviewed by the fieldworkers.

3.7 Delimitation

The study was limited to small and medium contractors in the low cost housing located in the Limpopo Province. The findings may only be generalized in cases of other small and medium enterprises.

3.8 Ethical Consideration

This research project took into consideration aspects of respect and dignity for all participants. Participant's confidentiality was maintained throughout the research process and under no circumstances was information of the research study used without the consent of stakeholders involved.

Due to the nature of the research there was definitely no laboratory experiment that was performed on any of the participants.

CHAPTER 4: DATA PRESENTATION, INTERPRETATION AND ANALYSIS

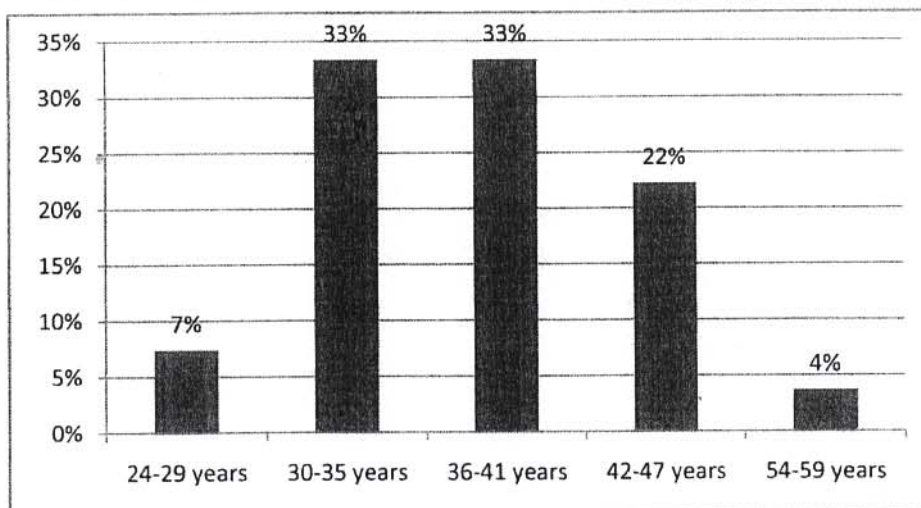
4.1 Introduction

This chapter presents the findings and observations noted when undertaking the research project. The data is critically analyzed and conclusions are reached about the challenges facing small medium enterprises in the low cost housing sector in the Limpopo Province.

4.2 Data analysis

Age groups

Figure 4.1 Age groups in small and medium housing contractors



The data indicates that the 27 small and medium contractors interviewed for this study vary in age. As figure 4.1 illustrates the sector comprises of fairly young and old contractors ranging from the age of 24-59 years. A majority of the contractors are concentrated (33%) within the ages of 30-41 years. It is even more encouraging to note that there are young people within the age group of 24-29 (7%). This shows that the sector has attracted a fair number of young people. There is however a small number of contractors within the age group of 54-59 (4%).

Looking at the figure below, it is clear that the sector has a potential of creating opportunities for the majority of unemployed young people in our country.

Figure 4.2: Academic qualifications

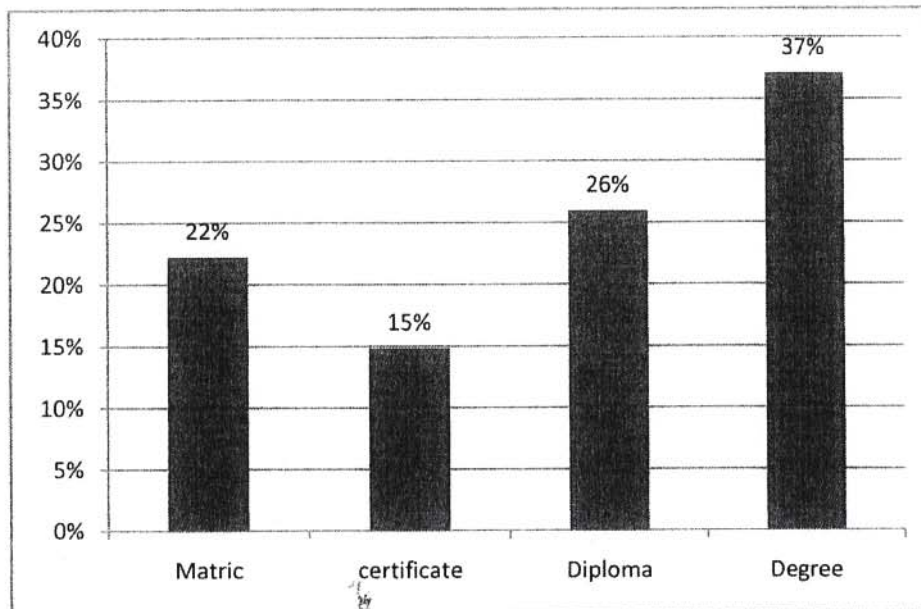
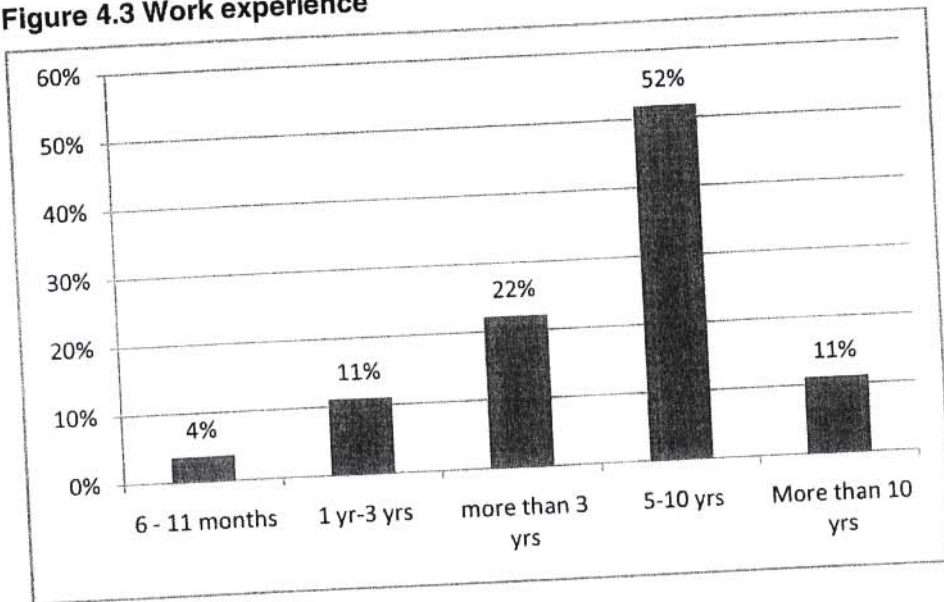


Figure 4.2 above indicates that small and medium contractors are generally fairly educated, with 22% and 15% of them having matric and certificate qualifications respectively, while a huge chunk has Diploma (26%) and degree (37%) qualifications. Education remains important, especially in this sector where people need to understand the dynamics and know how to complete tender documents.

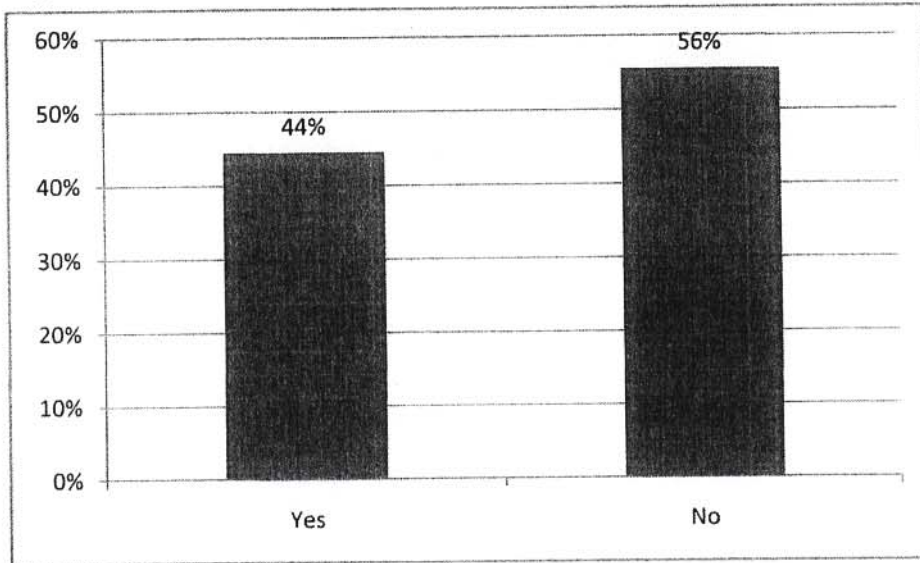
The role and importance of the relevant education is also noted in the literature e.g, (Wells 2000) that there is generally lack of technical skills and business skills among small and medium contractors in the housing sector. As observed, mentorship could be a useful solution to the problem in the short term. It is however noted that for a long term solution entrepreneurship education will be crucial. There is generally a challenge in the South Africa environment due to the limited scale with which entrepreneurship education is or might be offered by institutions of learning.

Figure 4.3 Work experience



As can be noted in Figure 4.3 most of the small and medium contractors in the low cost housing sector have a fair amount of experience. Those contractors with 3-11 months and 1-3 years in the sector constitute a mere 4% and 11%, while those with three years and above make 22% of the sample. It is worth noting that the majority of the contractors are located within the band of 5-10 years (52%). This may mean that most business in this sector continue to survive for years after establishment. It is however not clear as to whether it is a matter of sustainability of the sector or that people do not have any other alternative means of livelihood. Another interesting factor is the level of new entrants (3-11 months experience) into the sector which although small (4%) indicates that the small and medium contractors continue to be growing sector with the potential of creating job opportunities for the majority of the unemployed in our province. Worth mentioning is that one project secured by a contractor have the potential of having significant multiplier effect in the local economy.

Figure 4.4: Availability of civil engineers



As illustrated in Figure 4.4, it is interesting to note that a significant number of the small and medium contractors in the low cost housing sector do not have a civil engineer in their business or company. The role of technical skills in the construction industry cannot be overemphasized. An engineering background will therefore be useful background to have. There are cases where people with limited or no background of engineering are engaged in the construction business. As noted by English (2002) and Construction World (2000), the situation is worsened by such constructors also have limited or no access to professional advisors or consultants. The results are often not good, and this has resulted in the failure or collapse of some projects critical development programmes.

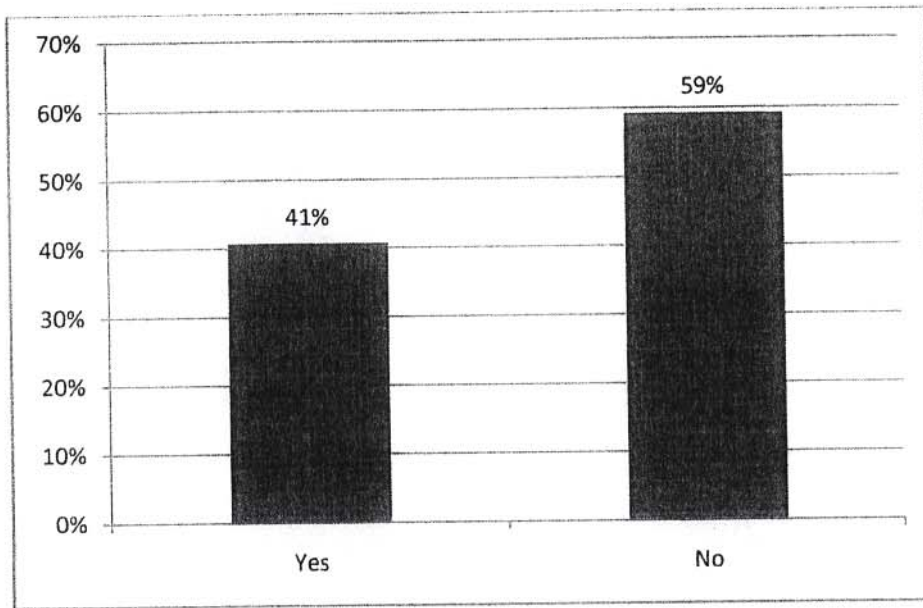
This lack of the above experience is likely to impact on their ability to do their work, especially because sectors such as construction require specialized skills. Also worth noting is that the lack of civil engineers in some companies may have impact on matter of quality.

Other things being equal, this could explain why the low housing sector has been struggling to deliver quality houses. It should be noted that there have been cases where some of the low cost housing meant of the poor have been falling a few months or weeks after they have been constructed. It could also be that matters of quality might have been deliberately compromise for profit purposes on the side of contractors; however matters of having the required in house skills to perform at an optimum level cannot be underestimated.

The findings also indicate that the issue of availability of capital still remains a challenge to some contractors as illustrated in figure 4.5. It is clear that a majority of the small and medium contractors are still struggling with regard to the above issue, as 59% indicated that they have not adequate capital against 41% that noted that they believe that their capital is sufficient.

It should be noted that capital is critical for the survival of any business. It is clear that without capital, the survival and sustainability of most companies in this sector remain at stake, especially because it is a sector where materials are required before a contractor can commence with a project. Also worth noting is that the fact that most the contractors are still running small businesses makes it difficult for them to secure the necessary loans which are required to finance their project. Most of the contractors have to contend with the general challenges facing the informal sector which struggle to secure finances due to lack of collateral.

Figure 4.5: Adequacy of capital

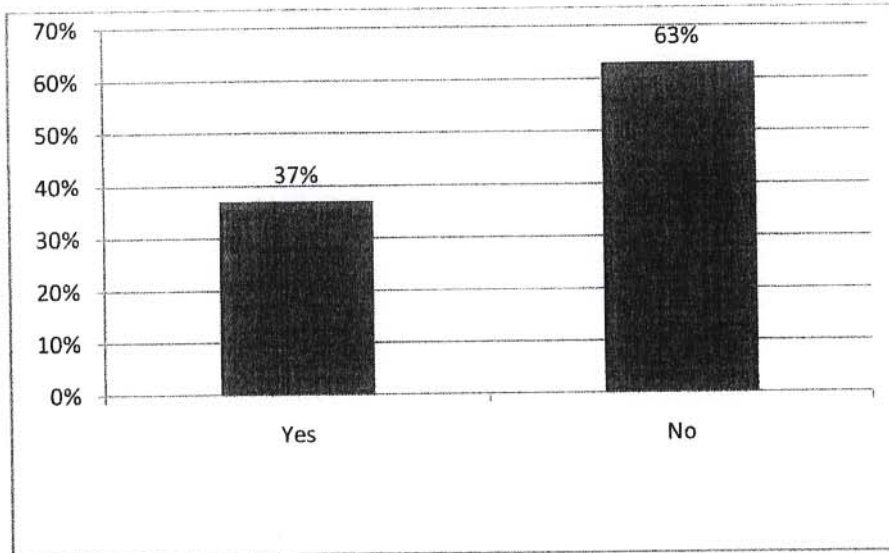


The lack of capital is noted in the literature (TIPS 2002) as one of the most critical challenges facing small and medium enterprises. Capital hold a crucial position in the construction industry as it is impossible to start any development project without capital. Constructors are expected to have sufficient capital that will enable them to start and finish a project within the set timeframes. This challenge is linked to a critical challenge facing small constructors: lack of access to finance. It is difficult for small and medium enterprises to secure capital or funding. Issues of collateral may sometimes feature during the process of applying for funding. The results are not always favorable for the small and medium enterprises, which are often struggling to make ends meet. As indicated above, it is clear that no project will succeed without adequate funding.

In addition to the general problems experienced by small and medium contractors with regard to lack of capital, Figure 4.6 below shows that there is also a challenge of payment problems usually rim government, which tend to delay paying the contractors after they have completed their projects.

tender process. Figure 4.7 clearly illustrate the prevailing state of affairs. This may be due a myriad of reasons.

Figure 4.7: Satisfaction with the tender process

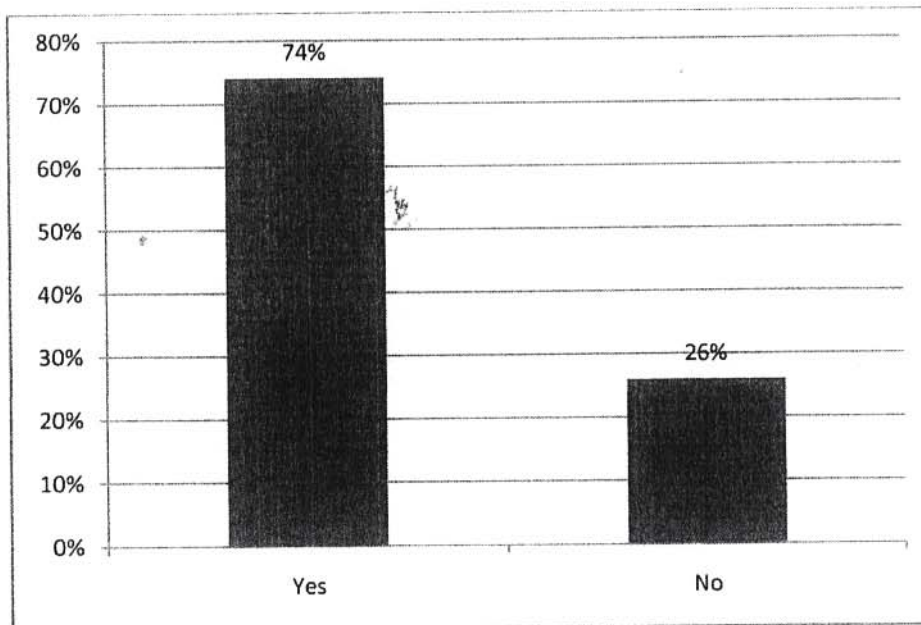


Those who were dissatisfied with the tender process provided the following reasons as the cause of their dissatisfaction:

- (a) The procurement policy is sometimes not being followed
- (b) Records and experience not checked/considered
- (c) Housing allocation not fair
- (d) Allocation to new SMMEs biased
- (e) Tenders allocated to friends
- (f) No performance appraisals to retain best performing contractors
- (g) Hardware competing with constructors for construction
- (h) No transparency and database not followed

- (i) Politicians being part of the tender process
- (j) Constructors who cannot finish jobs still awarded contracts
- (k) Corruption
- (l) Process too long and expensive
- (m) Cancellation and readvertising

Figure 4.8: Completion of construction

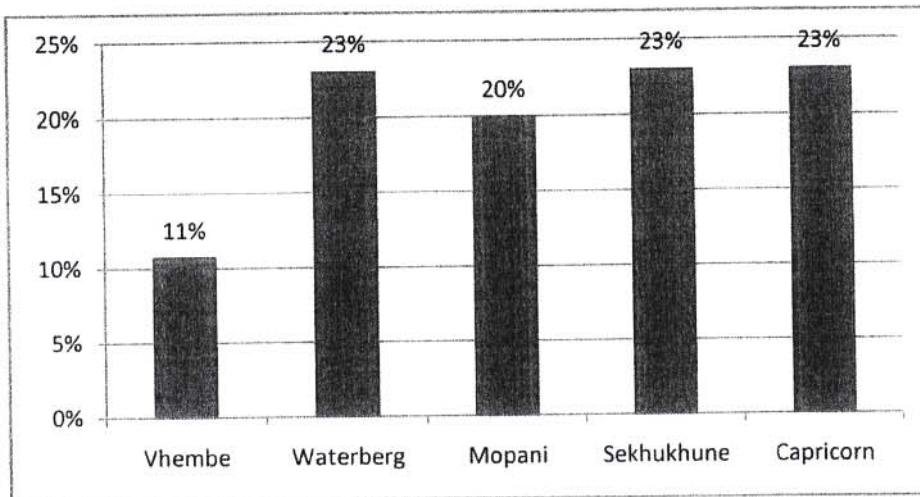


It is interesting to note that despite the challenges listed above regarding the dissatisfaction with the tender process, 74% of the contractors indicated that they are still able to complete their projects on time when given tenders (figure 4.8). It is only 26% who indicated that they are struggling to complete their projects. The issues that contractors raised include being expected to complete the construction on a fixed timeframe, irrespective of the number of housing units allocated to them could be contributing to this problem and challenge, especially or those emerging contractors who are still trying to find their feet in the industry.

It should be further noted that contractors who could not complete their projects generally noted the following reasons as the main causes of the delay in completion. It is notable that most of them are as a result of exogenous actors, which need to be dealt with before they can successfully accomplish their mission:

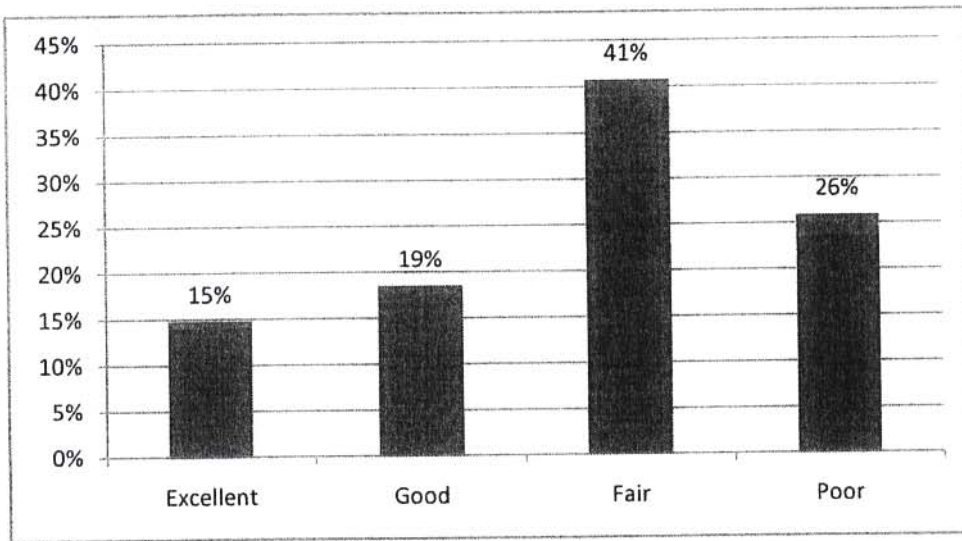
- 1)Delays in processing payments
- 2)Scattered villages with few beneficiaries
- 3)Late submission of beneficiaries by municipalities
- 4)Takes long time to screen beneficiaries
- 5)Land/sites are always not available or beneficiaries
- 6)Unavailability of building materials (including water)
- 7)Inaccessible areas
- 8)Lack of funding
- 9)Delay in engineers' inspection
- 10)municipalities not ready when projects start
- 11)Delay in delivery due to distance

Figure 4.9: distribution per district



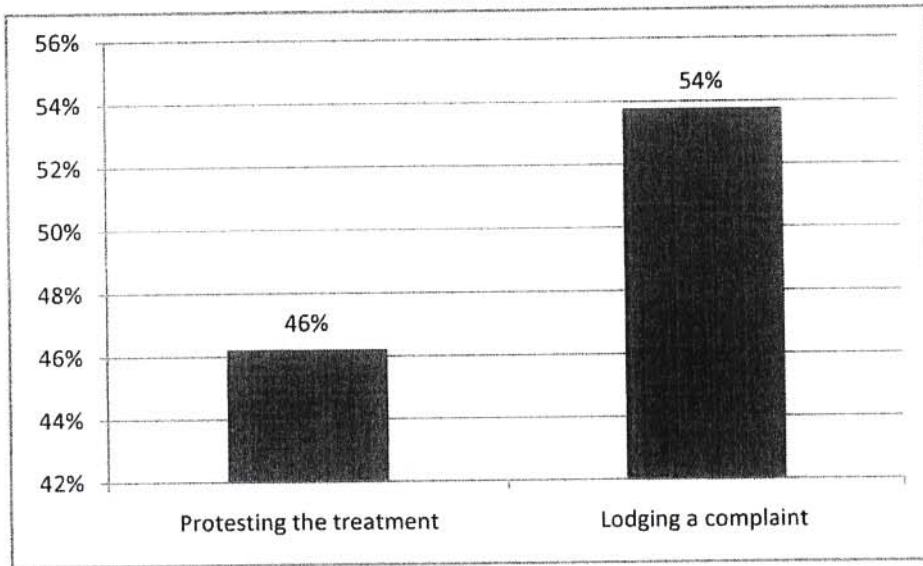
Despite the challenges noted above, it is clear that contractors continue to cover a wide range of districts across the Limpopo Province. Figure 4.9 shows that small and medium contractors are concentrated in the following districts: Waterberg (23%), Sekhukhune (23%), and Capricorn (23%). Their operations are also visible in areas such as Vhembe (11%) and Mopani (20%). The difference in distribution could be due to a variety of factors which may range from lack of the necessary capital to start the business and the availability of opportunities for such a business in some areas.

Figure 4.10: Rating government support



It is clear that government support will remain critical in order to assist small and medium contractors which are facing challenges in the sector. In the interview conducted with contractors, it became clear that there is a fair level (41%) of government support that they are receiving. There is however still room for improvement as only 15% thought that the support they receive from the government is excellent, as compared to 26% who thought that it is poor.

Figure 4.11: Reaction towards bad services

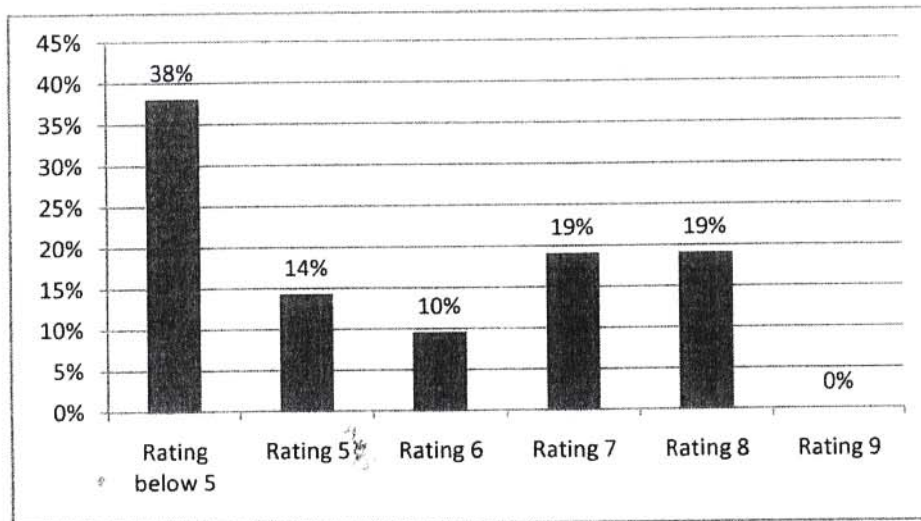


It is however observable as illustrated in figure 4.11, that the contractors who do not get the necessary assistance from the government are prepared to take the matter up and demand their rights with regard to being served properly. In the figure below, it is noted that 54% of the contractors responded that they would lodge a formal complaint if they were not happy with the service received.

In addition to the general concern about government support being limited, it is crucial to note that the literature indicates the importance of incentives from government aimed at encouraging emerging contractors (Luger 1997, Crosswell and McCutcheon 2001, ILO 2001). Having noted the role that the construction industry can play in employment creation and poverty alleviation it will be worth it to create the necessary incentives for this sector to thrive. According to Gounden (2000), an efficient, well functioning construction industry is essential for the achievement of national socio-economic development goals. Yassor (1995)

notes that it is small and medium constructors who are able to fulfill the needs of the poorer section of the population as they are willing to undertake projects which big companies are reluctant to take, hence it is crucial that they are given the necessary support aimed at developing their potential to deliver on societal needs.

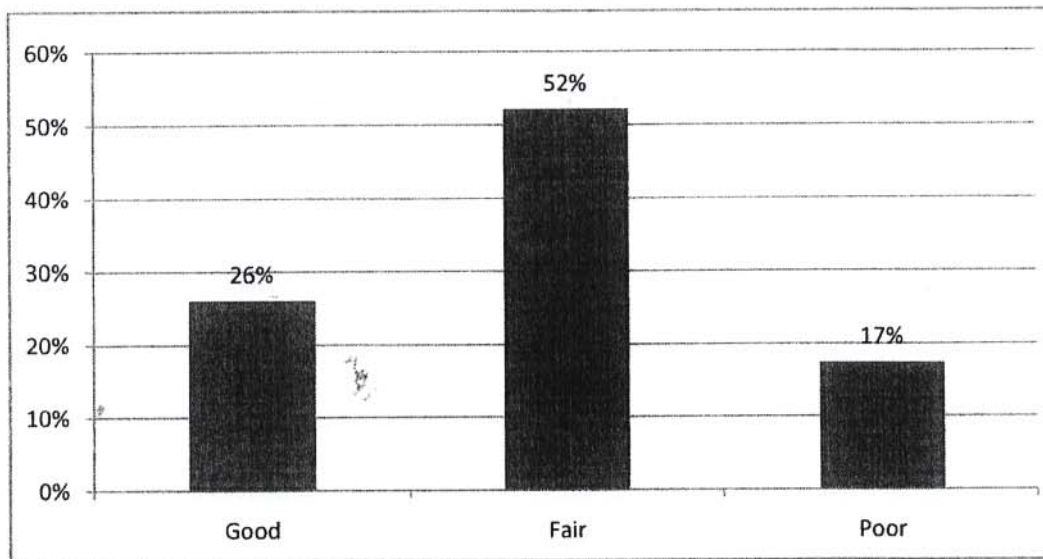
Figure 4.12: confidence in government ability to deal with their problem



It also emerged that contractors have developed the confidence in the government's ability to assist them as illustrated in figure 4.12 where a total of 62% contractors rated above 5 in the scale, which means that they are positive about the government's ability to assist them resolve conflicts or challenges they may have encountered. Also worth noting is that 38% rated below 5 in the rating scale, which indicates that the respondents have less confidence in the government's ability to assist them with regard to resolving their problems or challenges. It is clear that there is still a room for improvement to ensure that contractors get the necessary assistance whenever they encounter problems or have complaints. The above problem can be linked with the general issue of support from the government. The

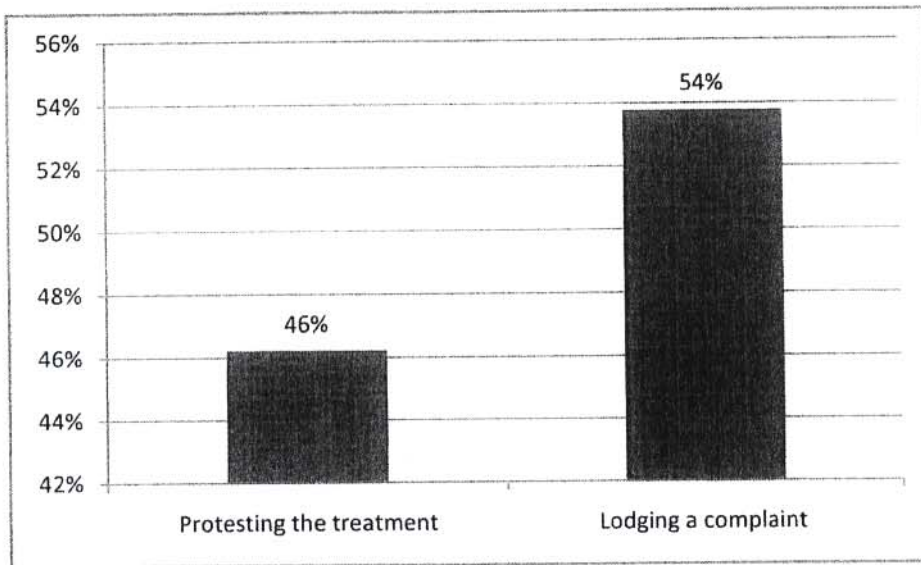
importance of support on the success and thriving of small medium enterprises cannot be overemphasized, especially in the South African context where most of the small and medium enterprises are run by people who have been disadvantaged in the past. Given the above scenario, such SMEs are likely to have more problems which if given proper support, can be resolved.

Figure 4.13: Dissemination of information



As indicated above, it is important that contractors must have confidence in the government initiatives that are aimed at assisting. They must be assured that the system set will be able to assist them whenever they need help. Figure 4.13 indicates that the majority of the contractors (50%) are generally happy with the system of disseminating critical information to them. The satisfaction also helps to build trust and confidence in government programmes which further encourage the growth of the industry. It also establishes appreciation for the efficiency of services rendered by government.

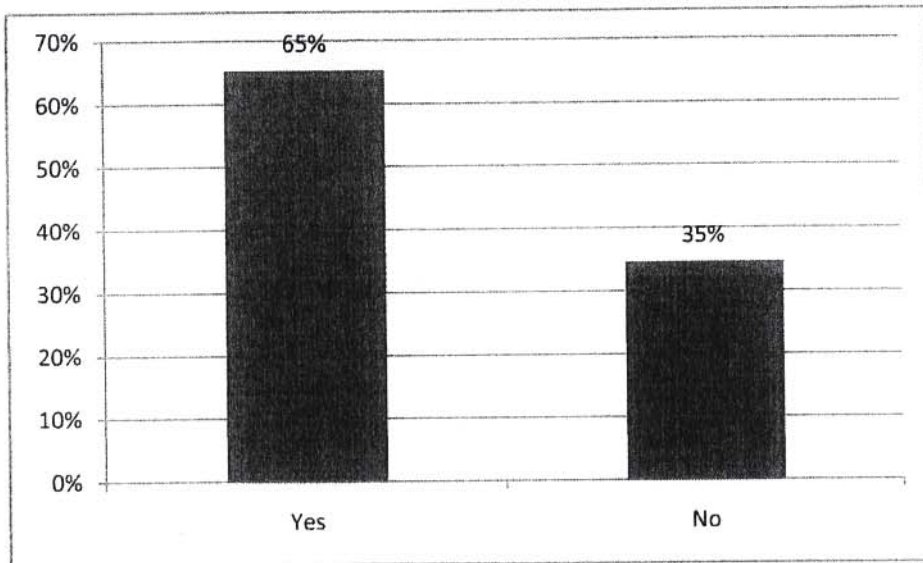
Figure 4.11: Reaction towards bad services



It is however observable as illustrated in figure 4.11, that the contractors who do not get the necessary assistance from the government are prepared to take the matter up and demand their rights with regard to being served properly. In the figure below, it is noted that 54% of the contractors responded that they would lodge a formal complaint if they were not happy with the service received.

In addition to the general concern about government support being limited, it is crucial to note that the literature indicates the importance of incentives from government aimed at encouraging emerging contractors (Luger 1997, Crosswell and McCutcheon 2001, ILO 2001). Having noted the role that the construction industry can play in employment creation and poverty alleviation it will be worth it to create the necessary incentives for this sector to thrive. According to Gounden (2000), an efficient, well functioning construction industry is essential for the achievement of national socio-economic development goals. Yassor (1995)

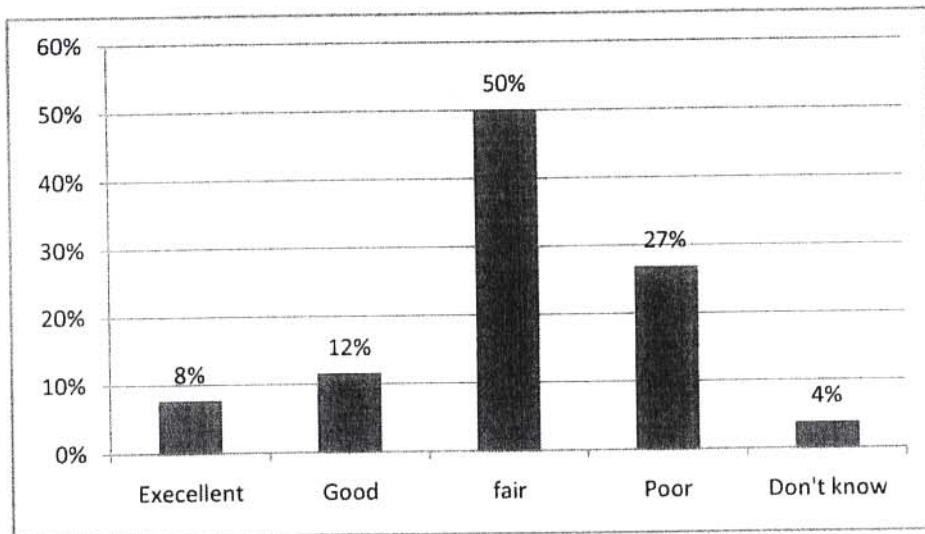
Figure 4.14: Time to complete project



As Figure 4.14 above shows, the majority of the contractors (65%) were able to complete the contracts within the timeframe, while a smaller number (35%) indicated that they were not able to do so.

The delay in completing projects could be a result of several factors. For instance, financial difficulties faced by the contractor could be one of the causes. This may be common, especially with small and medium constructors who do not always have the necessary capital and funding. It may also be that the contractor may be having too many change orders to deal with at a given time. Severe weather conditions may also cause a delay. It therefore crucial to understand the cause of the delay by contractors in order to assist with regard to policy framework. It is important to consider some form of intervention in the form of supplier development programmes to help empower those contractors who are still struggling.

Figure 4.15: Quality of service by the Department of Housing



It is also encouraging to note that the contractors are generally happy with the Quality of services that are offered by the Department of Housing which is a very important Department with regard to their survival. As illustrated in Figure 4.14, 50% of the contractors indicated that they view the quality of the service offered by the Department as being fair, while 8% viewed as excellent, and 12% as good. As it is the case with other issues discussed, the contractors will be able to complete their projects on time, thereby improving their financial benefits and productivity. Government on the other hand, will improve on the delivery of services to communities.

The data on figure 4.15 indicate that although something positive is being done by the Department of Housing, there is need for more improvement of the situation given the contribution of the sector to socio-economic development. As indicated earlier, this sector continues to be the main provider of employment of local residents as it employs semi-skilled and general labourers in the locality.

As a result, the sector needs to be supported by ensuring that small and medium contractors have all they need to succeed.

Some of the challenges that have been noted as likely to have negative impact regarding the survival and sustainability of the small and medium enterprises in low cost housing sector include the following:

- 1) Lack of construction sites
- 2) Technical skills
- 3) No engineering capacity
- 4) Unfriendly work environment
- 5) Lack of working capital
- 6) Security problems (materials stolen)
- 7) Banks take time to release funds
- 8) No funding
- 9) Limited opportunities for tendering
- 10) Shortage of water
- 11) Limited capacity to complete projects
- 12) Shortage of bricks
- 13) Delays in payment of Claims/ Invoices
- 14) Distance and poor roads in some districts
- 15) Retaining skills

CHAPTER 5: CONCLUSION, RECOMMENDATIONS AND IMPLICATIONS

5.1 Introduction

This chapter provides concluding remarks, summarizes the findings of the study and makes recommendations for applications and further research.

5.2 Restatement of research objectives

The main aim of the study was to focus on the following key objectives stated below:

- (a) To investigate factors that contribute to failure/delay in project implementation by the small and medium contractors in the low cost housing sector;
- (b) To explore the problems facing small and medium contractors in the low cost housing sector; and
- (c) To propose possible ways of intervention and support with regard to the development of small and medium enterprises.

5.3 Summary of the findings

This study has managed to investigate the challenges facing small and medium contractors in the low cost housing. The findings show that contractors are faced with a myriad of challenges which result from various factors that were discussed in details in chapter 4. They are hereby summarized below:

- (a) The majority of the emerging contractors tend to lack the necessary access to funding from commercial banks.

- (b) Most of the emerging contractors may find it difficult to access projects bonded by commercial banks. The banks do not have confidence in emerging contractors, and as a result, they continue to grant their projects to big and well-established developers.
- (c) Most of the emerging contractors do not have the necessary capital equipment to commence with projects. These firms have limited access to equipment for construction purposes. This matter is further aggravated by the lack of access to bank loans to procure necessary equipments, most often leading to delays in completing projects on time or even affecting the quality of work.
- (d) Cashflow is a major problem to small and medium contractors. These contractors do not often have operating capital but had to wait until the construction of a unit is completed before they could be paid, thereby compromising progress on site.
- (e) Delayed payment is problem facing almost all the emerging contractors regardless of the level of education, experience and/or period in business. This often disorganize the contractors, labour and material costs are therefore affected, subject to the financial capacity of each company for survival.

The following were noted as being the most common challenges facing SMMEs in the South African context:

- (a) Shortage of technical skills
- (b) Lack of engineering capacity

- (c) Lack of working capital
- (d) No funding
- (e) Limited capacity to complete projects
- (f) Delay in payments

5.4 Recommendations

As the results indicate, there is a need to empower contractors in the low cost housing sector, as follows:

(a) Supplier development programmes for contractors

The programmes can be package in a way which will target the need of the small and medium contractors. A needs analysis is required before such a programme is designed.

(b) Incubator programmes

There is a need to select contractors who may want to undergo an incubator programme. The relevant Departments should take the necessary steps to ensure that contractors are given mentors or training and development in specific areas once they are awarded contracts. A clear and sustainable incubator programme is proposed to assist the new entrants in the industry. Training and mentoring should be tailored to suit specific needs of the trainees, also take into account their level of skills that they already possess. The mentoring should be sustained up to a level where the contractor has satisfied certain standards in terms of performance.

The programme will help enhance the capacity to plan and deliver the expected product on time and further reduce the challenge of non completion of projects. Evaluation systems should also be developed to assess the effectiveness of the programme.

(c) Contract development programme by NHBRC

Comprehensive long term programme, dedicated personnel to ensure sustainability of the development programme, periodical evaluation be done to ascertain the impact of the programme and promote excellence and professionalism. The NHBRC should take steps to ensure that the contractors who enrolled for the contractor development programme complete and that the contractors are registered with institutions such as NHBRC. The programmes are critical in capacitating the contractors, therefore they become meaningful only when they are completed. To continuously support them, a database is necessary for follow up support, as this would strengthen the sector and promote transparency.

(d) Empowering contractors with information

It is important to empower contractors with the necessary information that are relevant to their sector. This may be on various issues which may include: quality and grading system. The research reveal that, information dissemination particularly from government, is not satisfactory. Information is critical for these contractors to find opportunities within the sector, be it advisory, tenders, skills and capacity building for their own advancement.

Transparency is also important when dealing with the small and medium contractors. This will encourage the contractors to participate actively in establishing the kind of policies they would like to see implemented particularly within the sector. Transparency

will also clear allegations of corruption and favouritism when it relates to tendering opportunities within government. In addition these will build more credibility to the procurement process and promote fairness and build trust within the sector.

(e) Timeous Payments to contractors

It is crucial to ensure that contractors are duly paid upon submitting their certificates of work done, as it will enable them to complete projects on time. Capital has proven to be a major factor in the construction sector that will also enable contractors to pay employees and suppliers on time, and to avoid interests levied for late payments. It also contributes to the survival of the contractors and sustainability of the sector.

5.5 Conclusion

The aim of the study was to investigate the weaknesses and gaps in the small and medium contractors in the low cost housing sector in Limpopo. These gaps include among others, shortage of technical skills, delays in payments of contractors by government departments, lack of working capital, limited capacity to complete projects.

It is against this backdrop that these challenges identified be addressed. It is crucial due to the nature of the sector, which is labour intensive unlike large partnerships that rely on heavy machinery, has the potential to absorb even the least skilled in the community. The viability and sustainability will have a multiplier effect on the economy, by reducing housing shortage, unemployment, poverty, skills base. It is very clear that development of this sector has the potential to contribute towards improving the standard of living in Limpopo.

Need for further study

Given the limitation of the study, with regard to the development of the small and medium contractors in low cost housing, there is a need to focus attention on the challenges raised more specifically on how government can assist small and medium contractors to access capital as it has proven to be a fundamental challenge towards sustainability of the sector

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ANNEXURE A

QUESTIONNAIRE

JUNE 2010

CHALLENGES IN SMALL AND MEDIUM CONSTRUCTION COMPANIES IN LIMPOPO

1. In which age category are you?

18-23 yrs 24-29yrs 30-35yrs 36-41yrs

42-47 yrs 48-53yrs 54-59yrs 60-65yrs

66-71yrs 72-77yrs 78yrs and above

2. What are your academic qualifications?

Matric Certificate Diploma Degree

3. For how long you have been in the construction industry?

less than 6 months 11 months

1yr to 3 years more than 3 years but less than 5 years

5 to 10 years more than 10 years

4. Do you have a civil engineer in your company?

Yes

No

5. Do you have adequate capital for your business

Yes

No

6. It is easy for you to get capital for your construction company

Yes

No

7. It is easy for you to receive money from the government once you have been awarded tender

Yes

No

8. Are you satisfied with the housing tender process?

Yes

No

9. If no, describe your dissatisfaction. Give reasons

(a).....

(b).....

(c).....

12. In which district have you constructed any houses in Limpopo Province?

(a).....

(b).....

(c).....

(d).....

(e).....

What are the challenges facing your company? Describe and rank them in priority.

(a).....

(b).....

(c).....

13. Overall how would you rate the government support to small and medium construction companies in the province?

Excellent

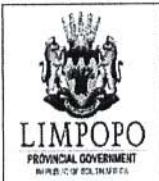
Good

Fair

Poor

Don't know

LIMPOPO PROVINCIAL MAP



LEGEND

- Main Towns
- ▭ Provincial boundary
- ▬ Main Roads
- ▭ Local Municipalities

Districts Municipalities

- ▭ Mopani
- ▭ Vhembe
- ▭ Capricorn
- ▭ Waterberg
- ▭ Greater Sekhukhune

