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SMALL BUILDERS IN THE NAMIBIAN CONSTRUCTION SECTOR: OPPORTUNITIES, CHALLENGES AND SUPPORT STRATEGIES

Abstract

The government of Namibia has (since independence in 1990) adopted policies and introduced different support programmes aimed at supporting small building enterprises. Although some of the policies and support programmes witnessed great success, small building firms still experience a lot of challenges. The study assesses the challenges facing these enterprises, identifies opportunities available to them and proposes support strategies needed for their development and growth.

The results show that small building firms are faced with a number of opportunities which include preferential treatment as a result of government policies, big projects to come up in future and access to new markets. The results also show that, although there are some ways in the country to support small building enterprises, they are still faced with numerous challenges which are categorised as either financial or non-financial. Financial challenges include lack of own funds and collateral security, reluctance of banks to finance small firms, time delays in contract payment, poor credit rating as well as lack of financial records and of advance payment and supplier credit. Non-financial challenges include the nature of construction activities and the environment, tendering procedures, lack of technical and managerial skills, intensity of competition and lack of support programmes.

The study also proposes ways of addressing both financial and non-financial challenges facing small building companies. Proposed ways of addressing financial challenges include establishment of funds, financial management and access to funding and improving payment for contract work. Proposed ways of addressing non-financial challenges include accreditation of small builders, strengthening information, advice and mentoring services as well as co-operation between contractors, expanding training facilities and increasing the use of support programmes.

Key words: Construction industry, Small building companies, Challenges, Namibia

INTRODUCTION

Ever since the country gained its independence, the government has realised the importance of small businesses in achieving economic growth. According to FES (1999), the lack of effective support is the most crucial challenge to the growth and development of small businesses in Namibia. In fact, it is almost universally recognised as the key problem for small businesses (Wanjohi, 2009). Even though the Namibian government is nowadays doing much to empower small contractors most of them are unable to take advantage of these initiatives due to problems they are experiencing.

Notwithstanding these problems, the construction industry is seen as one of the key drivers of economic growth, especially in developing countries. Besides, small-business operators in Namibia's construction sector play a major role in employing marginalised citizens and unskilled labourers, thus addressing employment at grassroots level and helping to expand economic activity as well as reducing poverty. They often carry out small projects in rural areas that are unattractive for big firms.

Despite the significant contribution they make to the country's economy, small businesses in the construction sector suffer from a number of challenges and as a result are losing tenders and projects to foreign contractors and big firms since they lack the capacity needed to undertake such projects. In order to address those challenges the government, through the Ministry of Trade and Industry (MTI), launched a small and medium enterprises (SME) policy in 1997 which is aimed at addressing (i.e.) deregulation affecting small businesses, small-business incentives, financing schemes, market access and training programmes.

Against that background it is the aim of this study to explore these opportunities, challenges and support strategies for small builders in the Namibian construction sector. More specifically, the objectives of this study are as follows: Determine the challenges facing the operation of small building companies in the Namibian construction sector; identify opportunities available to small building companies in the Namibian construction sector; and propose additional support strategies needed for the development and growth of small building companies in the Namibian construction sector.

BACKGROUND AND STRUCTURE OF THE NAMIBIA'S CONSTRUCTION SECTOR

The Namibian construction industry is defined in the Declaration of Collective Agreement for the Construction Industry as "the industry in which employers and employees are associated for the purpose of constructing, altering, renovating, repairing or demolishing any building, road, irrigation work or similar work in the course of construction, alteration, renovation, repair or demolition and shall include all work incidental thereto or consequent thereon" (*Government Gazette* of the Republic of Namibia, 1999: 6).

Construction in Namibia is defined by the Tender Board Act of 1996 as "all work associated with the construction, reconstruction, repair or renovation of a building, structure or works". According to Amweelo (2007) the role players in the Namibian construction industry are the suppliers, contractors, consultants and the financiers.

The sector has in the past been controlled by German-rooted firms like Metje & Ziegler, then by South African companies like Murray & Roberts and Grinaker, but now Chinese firms are dominant as they are working on many of the country's big projects. The domination of the industry by German and South African firms can be attributed to the fact that Namibia was first colonised by Germany and later by South Africa, while the Chinese dominance follows a pattern currently widespread across Africa.

The industry provides infrastructure, housing and buildings that are vital for the country's development. According to the NDP2 (2001), construction is the backbone of the country's economy and the second-largest employer of unskilled workers next to farming. It contributes about four per cent to the GDP.

According to the Gesellschaft für Technische Zusammenarbeit (GTZ) and Consult Buro (2007), the number of firms established in the industry has been increasing every year since independence. The Khomas region, which includes the capital city Windhoek, is the region where most construction activities are taking place, and it is the region where new construction firms are registered. Construction activities are strongest in the regions which have a lot of towns, mines and other larger projects, i.e. where most economic activities are taking place.

Thus, isolated regions like Karas, Ohangwena, Omusati and Oshikoto only have a few (small) construction firms.

TABLE 1: Distribution of construction businesses operating in Namibia

Type of construction	Percentage
Building	45
Finishes and interior construction, i.e. electrician, plumbers, joiners	21
Road construction and maintenance	12
Manufacturers, merchants and suppliers to the industry	10
Civil engineering	8
Others	3
Total	**100**

Source: Consult Buro (2007)

Based on the size of businesses, the industry consists of big international companies, big Namibian companies, medium-sized companies, small firms and micro-firms. The latter are mainly unregistered and operate in informal settlements and rural areas.

Big international firms are mainly from South Africa and China. The big international companies include China Zhengtai Construction, China Jiangsu International, Murray & Roberts, Grinaker and China Nanjing International. Aside from big international firms, there are also a few larger Namibian companies. These are companies such as OJ Construction, KL Construction, Namibia Construction and New Era Investments (which is owned by Chinese, but is regarded as a Namibian company as it is registered in Namibia).

Large public-construction projects are carried out by big international firms, mainly by Chinese enterprises. It is currently very rare to find a public tender being carried out by either a big South African or Namibian-owned firm. Chinese firms are carrying out large public projects because they often co-finance them. Examples are the building and renovation of state hospitals, construction and upgrading of roads as well as the building and renovation of schools and hostels.

Large South African companies are mainly engaged in the construction of big private buildings, especially in city centres, for instance the NamDeB head office in Windhoek is renovated by Murray & Roberts while Grinaker was used to build Trustco Group head office in Windhoek. Namibian larger construction firms are also getting tenders to build big private buildings. KL Construction was given a tender to build a 11 km access road to the newly constructed N$2,5 billion Ohorongo cement plant in the Otavi district area and also to construct the water, firewater and sewer infrastructure for the cement plant. OJ Construction was used by a local development company (Faanbergh Winckler) to construct 26 town-houses called “Blue Sands” in Swakopmund and also to construct three warehouses in Windhoek’s Prosperita industrial area. Medium-sized firms in this industry are mostly owned by coloureds and black Namibians. Although coloureds are perceived as good builders, they rarely get public tenders, thus opting for small to medium private tenders (like larger houses in upmarket areas such as Auasblick, Olympia, Klein-Windhoek and Eros), with the bulk of medium-sized public tenders going to black-owned firms.

Since informal construction is not controlled and not subjected to regulations, this has led to many black and coloured people setting up informal construction firms especially, thereby overcrowding the market and increasing competition. Looking specifically at small businesses in this sector, about 60 per cent are small firms, 20 per cent are micro-firms and the other 20 per cent are medium-sized. A breakdown of the institutional structure of small construction enterprises is provided in Table 2, based on GTZ data.

Table 2: Classification of small Firms registered in Namibia

Classification	Percentage
Close corporation	67
Sole-owned	20
Limited liability	4
Partnership	3
Joint venture	1
Others	3
Not registered	2
Total	**100**

Source: GTZ (2007)

The GTZ survey also indicated that (in 2007) only about 40 per cent of the small enterprises generated a turnover of N$250 000 or more.

Looking at the more formal definition of small building companies, there is no official definition of small building firms, causing individuals and institutions to use the small-businesses definition given by MTI as shown in Table 3.

Table 3: MTI's Small-Enterprise Definition

Sector	Employment	Turnover (N$)	Capital employed (N$)
Manufacturing	Less than 10 persons	Less than 1 000 000	Less than 500 000
Other services	Less than 5 persons	Less than 250 000	Less than 100 000

Source: MTI (1999)

According to the definition, small businesses in the construction sector fall under other services, which define a small business as any firm with less than five employees, an annual turnover of less than N$250 000 and capital employed of less than N$100 000 which carries out all work associated with the construction, reconstruction, repair or renovation of a building, structure or works.

In keeping with the GTZ and Consult Buro (2007), different definitions are being used to define small businesses in this industry. For example, the City of Windhoek uses criteria such as the value of a contract and annual turnover, years of experience, level of education and assets in the form of tools and equipment. The Roads Authority uses criteria like annual turnover of not more than N$2,5 million, labour force of not more than five employees and majority shares owned by a Namibian who has participated in the SMME training offered by the Roads Authority (RA).

Sector Organizations

There are three important organisations active in this industry. We can briefly profile each.

The Construction Industry Federation of Namibia

The Construction Industry Federation of Namibia (CIF) is an independent, non-governmental body representing the interests of the Namibian construction industry. It consist of all the stakeholders in the construction industry, ranging from building and civil contractors, building-material suppliers to specialists such as plumbers, electricians, joiners, painters and steel workers. It tries to be the voice for the industry, which is engaged in the agreements that involve the industry, such as collective agreements with regard to acceptable labour practices in the industry. The CIF also promotes small contracting firms through co-financing, training (e.g. in tendering) and mentoring programmes. Its executive committee, which is elected at the annual general meeting, consists of elected members from different construction-related sub-sectors. The executive committee consists of 18 members, but with only two representing small and medium enterprises (SMEs).

Namibia Small Contractors Association

Small contracting firms in Namibia felt that they were not well represented by the CIF. They view the body as representing the interests of big contractors more than those of small contractors. As a result they formed the Namibia Small Contractors Association (NSCA) which is an independent body representing the interests of small contracting enterprises through networking, capacity building and information dissemination. The body facilitates training programmes for its members in order to ensure that they are competent to carry out construction work and improve their access to finance.

Namibia Construction Skills Academy

The Namibia Construction Skills Academy (NCSA) is responsible for ensuring that contractors are given accredited training needed to run their firms. It aims to provide formal recognition of training in skills and qualifications (e.g. training on tendering). This institution also addresses poor contract management, substandard workmanship, lack of human capacity, non-adherence to specifications and all the industry shortcomings related to cost, quality and time. Although the NCSA has been in existence for some time, it was only given formal accreditation by the Namibian Qualification Authority (NQA) in July 2010.

MARKET ACCESS AND OPPORTUNITIES FOR SMALL BUILDING COMPANIES

The scope or volume of work available for small building companies in Namibia is highly constrained due to the small size of the Namibian population (which limits the building market), vast geographic spread of the population living in highly decentralised settlements, historic domination of larger South African constructions firms in the country, more recent rise and domination of Chinese construction firms, especially with respect to public-sector contracts, and existence of a few larger Namibian construction firms which (in the light of the external competition) try to get contracts which small contracting firms are competing for.

However, looking at Namibia's longer-run economic-development momentum it is easy to sketch a fairly optimistic picture with regard to the longer-run growth of construction activities in the country. Compared to other African countries the physical infrastructure is well developed, but there are many areas that need upgrading, extension or diversification. The population is growing steadily, requiring housing and related facilities. Growth sectors like mining, tourism, agriculture and transport also need construction.

As outlined in the NDP2 (2001) the government of Namibia is putting much effort into SME development through different strategies such as black economic empowerment (BEE) and affirmative action (AA) policies as well as through the creation of specialised institutions that support small-business development. The AA policy stresses that employers with 25 employees or more should redress colonial apartheid and inequalities in the workplace through developing plans to increase the recruitment and promotion of people from previously disadvantaged groups such as blacks, women and people with disabilities. Failure to do so may carry a fine of up to N$100 000.

The government is the biggest procurer in the industry (through the MWTC). Therefore, it is an MWTC requirement that 15 to 25 per cent of government capital projects (by value) should be given to SME contractors. In the case of labour-intensive work like gravel roads, between 40 and 50 per cent of the project value must be given to SME subcontractors, even if the larger contractor is a Namibian. Since the inception of labour-based programmes all projects have been given to Namibian contractors. Currently maintenance projects are also only given to local firms. In the case of road maintenance 70 per cent of the work is reserved for government-owned Roads Contractors Company (RCC), while other local contractors have to bid for the remaining 30 per cent (*New Era*, 15 March 2010).

In order to redress inequality in the industry, the government introduced a wide range of steps. The AA (Employment) Act of 1998, the Tender Board Act of 1996, the White Paper on labour-based works, the Social Security Commission and the rural-electrification programme (Amweelo, 2005). In 1991 the Ministry of Education and the MWTC introduced the Nationwide Improvement of Physical Facilities Programme to rehabilitate school buildings that were damaged as a result of the war and to add classrooms to schools that were neglected due to apartheid. This programme broke down work into smaller units in order to allow small contracting firms to bid even for one classroom depending on their financial, managerial and technical capacity. More than 90 per cent of this programme budget has been spent on black businesses in the industry, including women-owned firms.

In order to protect local contractors, the government in 2005 introduced a threshold stating that foreign companies cannot bid for public projects of less than N$6 million. (Insight Namibia, April 2006). As mentioned earlier, the MWTC introduced the Labour-Based Construction Programme in 1993, benefiting a lot of small black contracting firms. This programme was also supported by rural electrification projects under the Ministry of Mines and Energy. They were breaking down the project into smaller units that are manageable by small companies (e.g. a contractor could only tender to electrify a single school).

As part of the government’s five-year sanitation project, it decided to build community toilets in order to make sure that access to sanitation is improved. To support this it allocated money to all 13 regional councils. This project, which is to be completed in 2015 at the cost of N$1,6 billion, tries to maximise the use of local resources such as labour, contractors, suppliers, material, etc., thus making local small building enterprises beneficiaries of the project.

The construction of additional school classrooms can also benefit the industry. When the current Minister of Education, Dr Abraham Iyambo, took over the ministry in March 2010, he identified a serious lack of classrooms, requiring special budget allocations to be used in the construction of new classrooms. The construction of about three classrooms per chosen school is mainly done by small building companies.

The industry is also expected to benefit through the Millennium Challenge Account (MCA). The MCA is an initiative by the government of the United States of America which, through the Millennium Challenge Corporation (MCC), decided to reduce poverty through economic growth in Namibia. The MCC will provide funding up to US$304,47 million for projects in education, tourism and agriculture. The education project aims to improve the quality of the workforce in Namibia through enhancing equity and effectiveness of basic, vocational and tertiary education as well as of technical skills. The tourism project aims to grow the Namibian tourism industry with explicit targeting of income streams to conservancy households. The agriculture project aims to increase the total value added from livestock in the northern communal areas and will increase income derived by the poor from indigenous natural products. Undertaking these projects requires the upgrading, addition and extension of school rooms, teachers' houses, resource centres, skills-development centres, tourism and agricultural facilities. This process needs the involvement of the construction industry (www.mcanamibia.org.na).

A further potential boost for the construction sector can be linked to the Second National Development Plan of Namibia (NDP2). In order to achieve Vision 2030, the NDP2 put in place the following objectives for the construction industry.

- Ensure a co-ordinated and conducive regulatory environment for the building industry
- Improve the skills and know-how at both technical and managerial levels of the human-resources base available to the construction industry
- Improve access to finance for small-building contractors in order to ensure their effective participation in the sector

- Ensure sustainable development of the sector both in terms of employment and environmental concerns
- Consider the introduction of a policy on housing and construction standards as well as guidelines enforcement

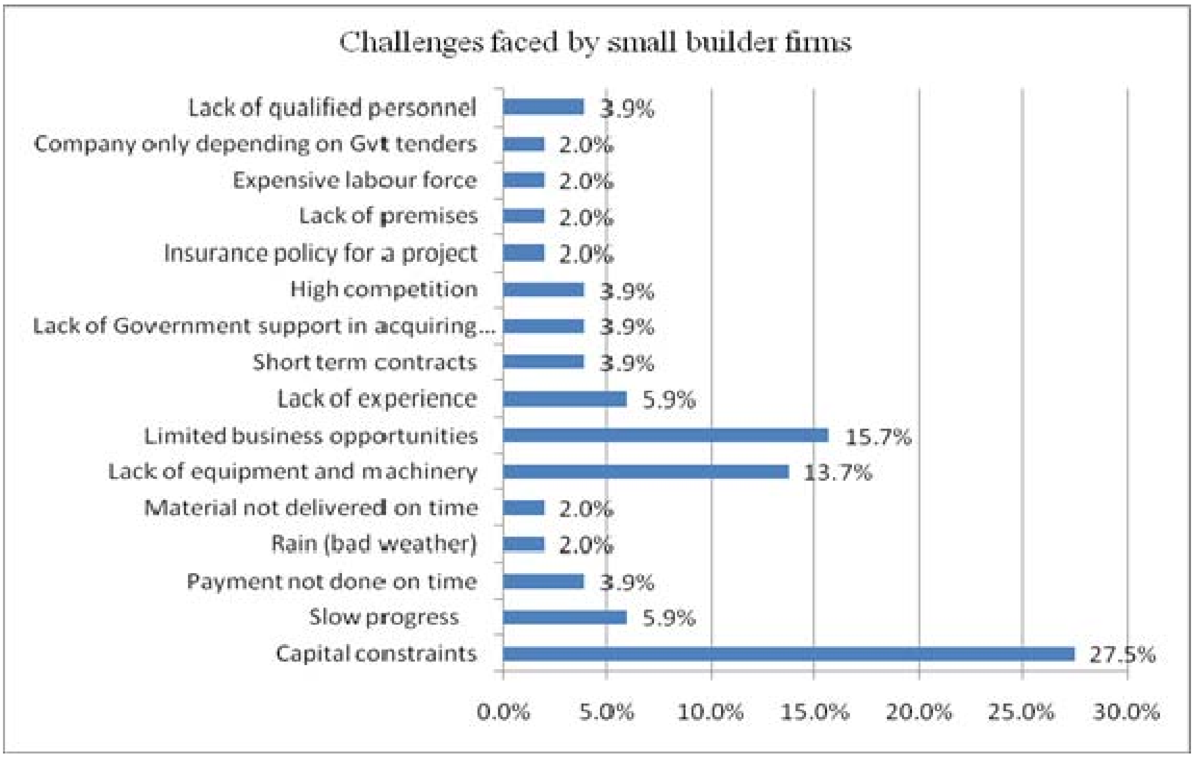
Strategies to achieve these objectives include the establishment of a research centre to promote the use of local, indigenous building materials and design, legislation promoting small-contracting firms in the industry and labour-based construction, the establishment of the National Construction Industry (NCI) representing construction-related institutions and policies that encourage on-the-job training. (NDP2, 2001). Although the NDP2 said a lot about these strategies to develop the industry, much still needs to be done to realise these dreams.

These few examples show how the public sector, through a combination of BEE and AA policies as well as tender conditions, tries to increase the market for small building firms. This is important for construction firms in specific areas or for specific types of construction work. Yet, all these steps cannot overcome the underlying limitations of the small local market.

CHALLENGES FACING SMALL BUILDING ENTERPRISES *IN NAMIBIA'S CONSTRUCTION SECTOR*

If one asks small-building entrepreneurs about the problems they face and how they would rank them in order of significance, the answer is usually that difficulties to access finance are the biggest or most serious problem. However, they don't notice that there are some factors that contribute to non-securing of finance.

In order to explore challenges facing small building firms in Namibia, the study categorized challenges into two parts, viz. financial challenges, covered first, and non-financial challenges thereafter. Both categories of challenges are summarized in the figure below:



Main Challenges facing small Construction Firms

FINANCIAL CHALLENGES

Financial are those challenges related to the acquisition of finance needed for business growth and development, i.e. qualifying for finance, accessing finance and challenges associated with managing acquired funds. According to Deele and Bonsu (2002: 3) access to finance is one of the major constraints for growth of small construction companies tendering for public work contracts in developing countries. Ndlovu and Thwala (2008: 1) cite that although all types of business need capital for start-up and expansion, many small contracting firms are unsustainable due to lack of finance.

We can now break down the complex of financial challenges into a number of more specific issues, which can be tackled by either public- or private-sector action or action by the entrepreneur.

Lack of own funds and collateral

Insufficient collateral is the biggest obstacle hindering SMEs from accessing finance from financiers. Financiers are risk-averse, thus they are demanding an assurance that they will get their money back in case the client defaults. In Namibia fixed properties are considered by financiers as the preferred source of collateral, and once an applicant does not own it, the chance of getting a loan is radically reduced. At the same time small businesses often do not have money to own fixed properties which is why they are looking for money from commercial banks.

Financiers also tend to value houses and buildings outside municipal areas at very low prices. They view them as having little re-sale value, which implies that they cannot be used as collateral. Besides, the majority of people in Namibia are engaged in communal farming and are only able to provide things such as their cattle and Mahangu (millet) fields as collateral. However, banks are also reluctant to accept that. In the cities most SMEs are either located in shanty towns or townships such as Katutura, where fixed properties that one can give as collateral are carrying low values compared to properties in wealthy suburbs.

The Namibian practice has shown that small construction firms, unlike businesses in other sectors, are only financed when they win a tender. In other sectors, whenever an individual has a business idea, financiers only ask to see their business plans to determine whether the idea is viable. This, however, does not apply to construction firms.

Reluctance of Financiers to finance small firms

Banks often stress that returns on investments in SMEs are very low and the repayment is not guaranteed, leading to a situation where only few small businesses receive financial assistance from commercial banks. On the other hand, the majority of Namibian people do not have money to build or renovate their houses with their own funds, thus opting for borrowing from commercial banks to do so. Banks, however, demand that in order for them to finance a house, it must be built by a contractor who has constructed more than three houses in the past and that those houses are built or renovated in an area declared as a municipal area by the government. This further reduces the scope for small building companies to get business.

Getting work to build or renovate a house in a municipal area is often a big challenge, since a contractor needs to be a “friend” of the person who is giving work, because nobody will trust the firm without seeing previous work first.

Some banks demand that, before the contractors are registered in their database to be able to construct bank-financed houses, they must have had money in their bank accounts for the past three months. They require those contractors to submit their bank statement from the past three months. If they do not have enough money in their respective bank accounts, they may be given a limit on the value of houses they can build or renovate. For instance, a contractor who has only N$50 000 in an account can only qualify to do bank-financed work up to the value of N$60 000.

Some banks demand that contractors have to transfer their assets so that the bank can be in control of the assets. Yet, contractors may already have used those assets as collateral with other financiers, making it difficult for them to move their assets to other banks.

Once they approved a contractor to build or renovate a bank-financed house, banks may demand that a contractor pays a monthly insurance. This high-cost insurance is used to pay for unplanned events (risk). For instance, it covers damages if a worker happens to be injured (i.e. fall from a building) when on duty, building material is stolen, a house under construction catches fire and or other risks are occurring while working on that particular bank-financed project.

In the search for credit facilities for small contracting firms, trade credit is a way of financing whereby suppliers allow a client to take stock on credit and pay at a mutually agreed upon future time. In most cases trade credit ranges from 30 to 180 days. However, once again many suppliers such as hardware shops and building-material retailers are not willing to extend trade credit to small contracting enterprises because of the alleged high risk.

Even though commercial banks have introduced SME units offering cheaper finance compared to normal loans, their requirements are considered to still be high. Thus, for a normal or personal loan an applicant only needs to provide the bank with an employer’s pay slip before the loan is approved, while for an SME loan a firm needs to have a business plan, its feasibility and viability need to be assessed, and a performance guarantee needs to be arranged before the loan is approved. The practice of commercial banks having special SME units is still fairly new but useful. However, these units are not yet available in most of the regions. In fact, it is widely believed that SME departments or units established by various commercial banks will not spread and expand unless they receive government support. These and other strict requirements are making the process of accessing SME loans very difficult.

Working agreements between the Development Bank of Namibia (DBN) and commercial banks are also criticised by many as raising the cost of loans. Since the DBN does not have branches in regions, it entered into agreements with Bank Windhoek and First National Bank (FNB) to lend money to SMEs on their behalf, given that those commercial banks have branches countrywide. In practice there is no big difference in the requirements set by commercial bank loans and those by the DBN, facilitated by commercial banks.

Many contractors still do not understand that commercial banks are profit-driven, thus are hesitant to take undue risks. Thus banks do not demand nor expect favours from contractors other than putting their firms in a state that meets the criteria set by commercial banks. After all, commercial banks are willing to assist, provided they are making profit out of the transaction. The criteria being set up by banks are usually clear and readily available, yet, instead of finding ways and means of adhering to those criteria, clients often opt to blame banks.

In this context commercial banks sometimes offer or demand to take over the financial-administration function from their clients in order to avoid the misuse of (loaned) funds by contractors. For instance, in the case where bank-financed contractors want to buy building materials, they only supply the bank with quotations (three quotations are ideal) and invoices from the suppliers. The bank then pays the suppliers directly, a process which gives clients no direct access to the (loaned) funds. However, banks are finding this process costly, since they need additional personnel to liaise with suppliers and confirm those invoices.

Time delays in contract payment

Small contracting enterprises undertaking public work are criticising the government for taking too long to pay them. They are citing that after completion they often wait for a long time for their payment to be released. They also indicated that the process of certifying that the work is done takes too long, especially for those carrying out work in rural areas. Construction of government-infrastructure projects is the responsibility of the capital-project section in the Ministry of Works, Transport and Communication (MWTC). This ministry is based in Windhoek, with the different project co-ordinators assigned to governmental projects also based there. They are responsible for supervising projects and certifying that work is done, after the contractor has submitted the payment claim. Contractors carrying out projects in rural areas have to wait longer for their work to be certified, thus resulting in payment delays. In cases where the work is carried out for a different ministry (e.g. the Ministry of Health) the project co-ordinator has to liaise with the Ministry of Health to release the payment, which can also contribute to delays in payment.

Delays in payment leave contractors with no resources to carry out the next project. Sometimes they win a project but are unable to execute it due to unavailability of cash-flow funds. This situation may also affect their integrity, thus affecting their chances of securing another tender. Similar problems may arise if work is done for private individuals who lack stable and adequate funds to finance construction work in one go. For example, people who are building or renovating their houses give a contractor the work to do, but when they lack funds, the work has to stop for a while, thus resulting in a simple project being completed over a long period of time which once again can harm the reputation of the contractor.

Time delays in the allocation of tenders may also cause financial problems. Contractors have tendered on the basis of prices quoted at the time of the tender preparation. With delays of up to six months, the cost structure will have changed, and contractors may face cash-flow problems unless they made provision for these problems.

It is common practice in Namibia that small contracting firms who win a tender have to pre-finance the project since clients usually only pay once the work is completed. In many cases they are not even given progress payments since clients may be afraid that contractors will disappear without completing the work. Those clients do not take into consideration that contractors are incurring all sorts of expenses through purchase and delivery of building materials and the wages of their staff. Contractors then have to borrow from commercial banks, but because of the banks' perception of the construction sector they may only provide the advance at high interest rates.

Collecting money from clients is another challenge as most contractors do not have legal advisors and therefore rarely have an enforceable contract, signed by the parties before the work commenced. The contractor ends up owing those from whom he borrowed initially, which gives the firm a bad reputation and may even lead to liquidation. Big construction firms have clients that have enough funds and are able to pay the contractor on time and on demand, therefore they rarely experience this dilemma.

NON-FINANCIAL PROBLEMS

Nature of construction activities and the business environment

There are many contractors in the industry, given low barriers to entry. This often makes the process of acquiring the next project lengthy and difficult. During the period when contractors are waiting for the next project, the business will be at standstill and no money will be generated to cover expenses. For instance, a firm needs to pay its workers regularly, pay tax, pay social security contributions and obtain money to tender when projects arise

Failure to pay for these expenses affects their good standing which is crucial for winning a tender. Besides, when builders cannot afford to pay their workers during that waiting period, workers may leave the company and move to other firms.

Companies and individuals giving out work, demand to know about the work carried out by the contractor in the past, i.e. to be assured that work of high quality will be produced. However, contractors often do not have records of past work because they are new in the market or have carried out work for people who cannot give them proof of work done.

Due to the tough price competition for small building projects, contractors are often faced with no option but to build with poor-quality material, thereby compromising quality and standards. Yet, in future a client who wants the work to be done will not recommend the services of those particular contractors because the past work was not up to standard.

Some contractors are citing that sometimes they are not given the freedom to buy building materials since clients take this responsibility for the sake of saving cost. Because most clients do not know much about the materials needed, they tend to buy inappropriate items. Using inappropriate, inadequate and cheap materials compromise the quality of the building, thus affecting their chance of getting the next contract because a low-quality perception is created with regard to the business.

Inefficiency of a main contractor can also have a negative effect on the work of a sub-contractor, for example where a main contractor did not deliver as per expectation, resulting in the sub-contractor losing his work as well.

The lack of technically efficient equipment and office space is often viewed as another reason why firms are not getting tenders. At the same time those who own construction equipment do not want to lease them to small contractors simply because they win small tenders which leave no margin for the lease. The same applies to small contracting businesses operating in remote villages, where the process of controlling leased equipment is very difficult and costly due to the travelling. The risk of theft is also cited as reason for not leasing to small contracting companies since they are associated with poor storage places and security.

Inclement weather has been negatively affecting the industry. Namibia has been experiencing severe floods for the past three years, a situation which hindered many contractors from finishing their work on time. For instance, those that are manufacturing bricks are complaining that heavy rainfall affected their businesses negatively as bricks need time to dry.

Unethical behaviour is also one of the challenges experienced by small building firms. Financiers "stealing business ideas" is one of these obstacles. Builders who are innovative and planning to diversify their business are complaining that financiers copy their ideas and sometimes sell them to friends. This happens when contractors submit their proposals and ideas in search for funds. For example, a contractor may want to buy a brick-manufacturing or -processing machine to be able to sell bricks in a remote village in northern Namibia where currently nobody is offering that service. A financier after evaluation realises that the project would be profitable, s/he "sells" the idea to local friends. They make sure that they speed up and finish the process as soon as possible, to make sure by the time the legitimate owner's loan is approved, the competing project is already up and running.

Another problem area for small (black) builders relates to the policies of affirmative action (AA) and black economic empowerment (BEE). Here "fronting" is regarded as one of the biggest obstacles. Fronting is when a foreign or non-black-owned firm uses the services of a black person as the owner, director or shareholder of a company in order for that particular firm to win tenders. Non-Namibian nationals are often using local black people as heads, contacts and directors of their firms with the view to meet the requirements demanded by those policies. Foreign nationals are also giving their firms Namibian names in order to sound local because they know that local firms have a greater chance of winning tenders.

"Bid-shopping" is also described by many SMEs as negatively affecting the industry. Building contractors, willing to sub-contract a portion of some of their work, do bid-shopping in order to increase their profit. They disclose submitted bids to competing sub-contractors in order to encourage them to lower their prices.

Finally, theft of building material is also a major challenge facing the construction industry, affecting small building companies, which cannot afford effective controls.

Tendering procedures

In construction much of the work allocation is channelled through tenders, the process which is usually competitive as many companies have capacity to carry out the work. However, the process of tendering is usually a "headache" for small contracting firms. All too often contractors, because they want to win a tender, cut their prices or keep them as low as possible in order to beat the competition from other companies. Upon winning a tender in this way, the quoted price will not be enough to cover all expenses, leaving the company with unpaid accounts and overdrafts. In fact, some companies refuse to accept tenders if it is felt that the quoted price is too low or unrealistic and the contractor cannot give the assurance that the work will be carried out professionally.

Even though most tenders are advertised and accessible to small construction companies, completing tender documents remains a big challenge for small firms. Quite often tender documents are drawn up by consultants who do not take small contracting firms into consideration or who are not familiar with the local construction industry. As a result small building companies cannot meet these conditions. In awarding a tender many clients demand that a firm must have contingency plans in place for crisis events, while small firms find it difficult to come up with such contingency plan.

Procurement of materials

Small companies also have problems determining the exact volume of materials needed for a project. This may leave them with surplus material after completion. Because it takes them time to secure a next tender, and also due to the fact that they do not have good storage facilities, their unused materials may end up being stolen or damaged by rain and wind. Due to such over-procurement they may end up making a loss on the project undertaken. Because of changes in the supply of materials, the surplus material may end up being unused.

Lack of skills and management capacity

A well run small business needs the full range of technical, financial, marketing and general managerial skills which are linked to the running of a business. This certainly also applies to small contracting firms in the building sector, even though they may have a small staff and not a constant flow of work. The fact that every project has its own specifications and much of the work takes place under difficult conditions makes these skill needs even more important.

Without going into the reasons, it is clear that (given the relatively small size of Namibia's small-contracting segment) there are not many training facilities available locally to transfer these sector-specific skills. This is, after all, one of the reasons why larger (foreign) contractors are often preferred for complicated projects.

Chinese competition

According to Jauch and Sakaria (2009), about 60 to 70 per cent of large (mainly public) construction projects have over the past few years been awarded to Chinese companies. These projects include the Supreme Court in Windhoek, the prison training college in Windhoek and the Magistrates' Court in Wanaheda. Other projects carried out by the Chinese include the construction of 102 houses in Katima Mulilo, funded by an interest-free loan from the Chinese government. China Nanjing International Namibian Construction constructed a Chinese-government financed Northern Tannery in Ondangwa, and they are currently busy constructing the head office for the Ministry of Lands and Resettlement.

Jauch and Sakaria (2009) further cite that a Chinese company was given a stake in the construction of the newly built State House, although the plant contractors were from North Korea. A Chinese company was appointed, without a public tender, to do some work after their government donated N$55 million towards the project. Another construction tender given to a Chinese company was the building of the N$309 million tarred road between Rundu and Nkurenkuru in the Kavango region. Chinese construction company Jiangsu Zhengtai Construction Company was also awarded a tender by the government to construct a secondary school at Omuntele village in Oshikoto region.

Although the tender for the construction of the Ministry of Lands and Resettlement head office was awarded to China Nanjing International, the decision was challenged by the two largest Namibian construction companies in the country's High Court. Namibia Construction and Murray & Roberts (Namibia) agreed that it was legally wrong for the Tender Board to award a contract to China Nanjing, citing that the company is not registered with the Employment Equity Commission, failed to submit its AA report as required by the Act of 1998 and the company was not a member of the CIF. Not being a CIF member was an indication that a company was not party to the collective agreement between the CIF and the trade union (Manwu), which was one of the requirements stipulated in the tender. Yet, China Nanjing continued with the construction, even though the case was still at court (*Namibian*, 29 January 2009).

It is widely perceived in Namibia that the Chinese government donates money to the Namibian government with "strings attached" in order to allow their companies to undertake projects they have sponsored. They also give interest-free loans to the government of Namibia for certain projects, under the condition that they must be undertaken by Chinese companies. Another case where the government of China gave a favourable loan with "strings attached" was when it offered a N$300 million soft loan to the Namibian government to be used on the railway-extension project between Ondangwa and Oshikango on condition that the Namibian government ignore tender procedures and award the tender to Equipment Import & Export Corporation (CMEC), a Chinese company. Tender procedures were waived, and the contract was awarded to CMEC (*Informante*, 23 July 2009).

According to Jauch and Sakaria (2009) Chinese companies made a breakthrough in the Namibian market through tendering for public work, but they have now also moved to the private sector where they are giving tough competition to both local and South African companies because of their low bidding prices. Chinese bids are usually about 20 per cent cheaper compared to bids submitted by other companies for similar construction projects. This is attributed to the fact that they import from China some building materials which are less expensive, and that their work is completed on time as they work longer hours.

Due to factors such as lack of resources and capacity, some Namibian contractors have started to sub-contract Chinese firms as they are cheap (resulting in their projects registering high profit margins) and complete work in time. One of these scenarios is the construction of the library of the University of Namibia, where a Namibian company sub-contracted China Nanjing International to carry out the construction (*Insight*, April 2006).

In some contrast to wider public perceptions and the examples cited so far, some foreigners (especially Chinese nationals) are registering their construction firms in Namibia and comply with all relevant registration requirements related to the Social Security Commission (SSC), certificates of good standing from the Employment Equity Commission as well as the Labour Act and value-added tax (VAT). They are also giving some shares to Namibians, in the hope of winning tenders meant for locals.

On another level, Chinese contractors do not compete for limited local finance with Namibian firms but import their finance from China, which gives them a competitive advantage compared to local firms. They are also reducing the cost of doing business by not adhering to minimum wages (set by government) for their workers and not appointing their employees on a permanent basis, making their bidding for tenders 15 to 20 per cent cheaper compared to local contractors.

Lack of Focussed Support Programmes

Soon after the country gained its independence, the government realised the importance of small businesses in achieving economic growth. As a result they created various institutions under the Ministry of Trade and Industry (MTI), tasked with the support for development and growth as well as the provision of capital to small businesses. These institutions are the Namibia Development Corporation (NDC), Development Brigade Corporation (DBC) and the Small Business Credit Guarantee Trust (SBCGT). However, due to a number of factors, several of these institutions became dormant. In the building sector the Small Builder Bridging Fund (SBBF), located within the NDC, came to an end. It used to provide bridging finance to small builders who could not access finance from elsewhere. The SBBF used to give maximum bridging finance equivalent to 35 per cent of the contract value (between N$10 000 and 100 000). The loans covered the purchase of machinery, equipment, material and stocks. Loan repayment, expected after completion of the contract, was to be paid directly to the NDC.

In 1999, the government established the Small Business Credit Guarantee Trust (SBCGT) in order to improve small-business access to finance through providing them with collateral when applying for loans from commercial banks. The SBCGT guaranteed up to 80 per cent of the loan for an amount not more than N$250 000, and small businesses were only required to contribute 10 per cent from their own equity. However, many small businesses failed to pay back the money, so that the government decided to discontinue the operation of the SBCGT.

ADDRESSING THE CHALLENGES OF NAMIBIAN SMALL BUILDERS

The study proposed ways of addressing some problems experienced by small Builders. It can briefly refer to some of these.

- *Filling the skills and managerial competence gap:* This is a general problem of small enterprises, with the small building sector no exception. The challenge lies with technical and other training bodies in Namibia to develop and offer appropriate (short-term, part-time) programmes which are financially affordable and practical enough to benefit small building firms.

  Naturally, interaction between small building companies and between them and larger contractors could also help to transfer skills and experience. Similarly, mentors could play a (more) significant role in getting small contracting firms in contact with trainers.

- *Storage and office premises:* Given the high risk of theft of building material and equipment, small contractors often face the problem of not having proper premises (or transport from such premises to their sites). Once again, there are no simple solutions: A mixture of support from local authorities, larger contract partners and own efforts will have to be worked out in each case.

- *Acquisition of modern equipment:* Given their lack of start-up capital and low profit margins, small building firms often have only very rudimentary equipment and tools, which can negatively affect the quality of their work. Here again, lack of access to capital is often an important factor (which we have discussed, also indicating support schemes). Other ways to overcome this problem would be greater co-operation between small contracting firms (to share equipment, vehicles, etc.) or assistance from larger contractors with whom the small firms are linked.

- *Bad weather:* Compared to building contractors in many other parts of the world (where climatic conditions are often extreme), Namibia's weather is actually very favourable for open-air construction, given low rainfall and no extreme heat or cold. What is left as a risk has to be accepted as normal business risk.

- *Effective business associations:* All over the world small enterprises benefit from the actions of business organisations or associations, especially if these organisations are sector- or- industry-focused. In practice, there is unfortunately a two-fold dilemma.

  - ❖ National associations (e.g. for small building companies) concentrate on "national issues" and do not really reach grassroots operators spread over Namibia. Thus, the national head office (usually in Windhoek) may be of little value to small building firms in the platteland areas and smaller towns.

  - ❖ Local (branch) offices of such bodies usually have too few subscription-paying members to be able to afford full-time staff. As a result there will be little capacity to practically help members in addressing local problems.

  These two dilemmas also apply to Namibia, where national organisations are of little direct help in the countryside.

  Here again, much will depend on possible supportive action of larger building contractors who are willing to take up some of the problems of small building firms at the national offices.

- *Strengthening Partnerships and Incremental Development:* The dynamics of the Namibian construction sector has shown a multitude of problems experienced by small building firms, but also a diversity of initiatives, support policies and joint actions. For many entrepreneurs the problems remain overwhelming, and support efforts are felt to be quite insufficient. Other observers look at the process of incremental change and development, where *some* progress is made in certain areas, while change may still be very slow in others. Critical for the overall success is the interaction of the different key players in the development process. We can refer to a few of these areas.

- Increased partnerships between large contracting firms on the one side and small and medium operators on the other.
- Increasing interaction between Chinese construction companies and local firms – even if many observers find this almost impossible.
- Closer co-operation between the different public-sector bodies in efforts to help local small building companies.
- The development of training programmes for builders which are offered jointly by different training bodies (thus being able to offer them across the country).
- Higher media publicity to be given to local small building enterprises and their progress (as well as obstacles) across the country.

Thus, while this wide range of supportive action for small building firms is planned or in motion, their overall pace of support will now depend on the effective co-operation and interaction of the different players and stakeholders. There is no magic recipe to accelerate that co-operation. It will depend on leadership, trial and error, public debate and effective communication.

SUMMARY AND CONCLUSION

This study has chosen the construction sector of Namibia to look at the size, role and progress of small enterprises in Namibia's economic-development process. The focus has been on the problems facing small contractors in Namibia and policies or steps taken (or planned) to address these problems. Underlying this topic is the wide-spread belief that Namibia's small building companies are in a particularly weak and disadvantaged position and that far too little is done by the government and other players to help them.

This perception of a structurally weak small building sub-sector relates to certain fundamental characteristics of the industry, namely: the vast size of the country and the small population make the clustering of building activities difficult, South African building corporates have historically dominated the Namibian market, during the last decade Chinese construction firms have captured most of the larger public-sector construction projects. Thus, given these realities, the scope for small contractors is very limited, even if many of the sector-specific problems are addressed.

Based on this background information, the study finally looked at steps that should be taken to further improve the position of small builders. As in the earlier parts of the study a distinction is made between financing issues and non-financial issues, where problems around market access (and the dominance of foreign construction corporates) were central.

The central message of that section (and the central conclusion of this study) can be summarised in a few key points.

- Even with proactive government support the inherent limitations of Namibia's small-building subsector cannot be overcome.

- Although access to finance is widely perceived as the biggest problem, there are many different (private, commercial and public-sector-supported) sources of finance from which contractors have to choose. The range is widening, but many operators are not well informed about the opportunities and how they can utilise them.

- In the sphere of market access diverse efforts are under way to gradually increase the scope for small companies. These are related to BEE and AA policies, but also to increase subcontracting of larger firms. There are even signs of joint ventures with Chinese operators, although progress is slow.

- Aside from the financial and market-access issues the most important other needs relate to training, mentoring, management improvement, financial planning and the co-operation of small building firms to jointly tackle their challenges.

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