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**Small Building
Contractors**

in

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February, 1992

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SMALL CONTRACTORS IN
SOUTH AFRICA

Richard Martin
RHUDO E & SA

February 1992

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Acronyms

ABA	African Builders Association
BIFSA	Building Industry Federation of Southern Africa
CDA	Contractor Development Agency
DBSA	Development Bank of Southern Africa
EDSA	Entrepreneurial Development (Southern Africa)
FABCOS	Foundation for African Business and Consumer Services
KFT	KwaZulu Finance Trust
KTT	KwaZulu Training Trust
NAFBI	National African Federation of Building Industries
NAFCOC	National African Federated Chambers of Commerce
PWV	Pretoria/Witwatersrand/Vaal triangle (the metropolitan area which has Johannesburg at its center)
SAHT	South African Housing Trust
SBDC	Small Business Development Corporation
SBDF	Soweto Builders and Developers Forum
SUDS	USAID's South Africa Shelter and Urban Development Support Program
VAT	Value Added Tax

EXECUTIVE SUMMARY

1. Objectives

The study was focussed on four aspects of the small contractors:

1.1 The organisation of the building industry and the role played by small contractors within it.

1.2 The constraints that adversely affect the performance of small contractors.

1.3 The training and technical/managerial assistance needs of the small contractors as perceived by themselves and those whom they work for.

1.4 The sources and nature of training available to meet these needs.

2. The organisation of the building industry

It was found that there is a very large number of small firms - about 75% of all registered firms employ less than 20 people.

The owners of small contracting firms typically are poorly educated, and some are even illiterate.

There is a complex regulatory system which lays down minimum wages and requires the contractor to make deposits for future wages for his employees in case of bankruptcy or default, and provisions for sick pay, holiday benefits etc. Due to these stringent and expensive conditions most small firms are (illegally) not registered. Nevertheless, they are able to get work and many do so as sub-contractors to large firms.

3. The constraints

Small builders face difficulties in many different ways. They find it hard to get credit at building materials suppliers, and even to get materials delivered at site. This increases their costs significantly.

They also find it difficult to obtain "bridging finance" to cover their cash flow needs during a contract, to post performance bonds and meet other financial commitments in the early stages of a contract.

A large percentage of the available formal sector contracts are packaged in such a way that they are too large for small contractors to tender for.

4. The technical and managerial needs of the small contractors

Small contractors lack several important skills, of which the most important is their lack of business/managerial skill. In terms of technical skills their main deficiencies are in cost estimating and materials scheduling, and job programming.

5. Existing training programs

A number of training programs exist to meet these needs, which between them address a wide "market", from training the individual artisan to set up as a self-employed craftsman, to highly sophisticated advice to contractors who are already doing well. Some training programs are project-based - i.e. linked to a specific development on a specific site, while others classroom based. Some institutions charge fees others do not. However, the number of firms currently benefitting from training is very limited.

6. Proposals

The report proposes three principal interventions.

6.1 Increasing the availability and scope of training courses and the development of training materials. One of the objectives would be to increase the training opportunities presented by USAID financed housing developments, and thereby give the contractors more on-the-job training. Criteria for participation in the program, and designation of agencies to conduct the training would be determined by a project committee on which small contractors and USAID would be represented.

6.2 Establishment of a bridging finance fund. The nature and operational system for this fund are to be determined after further studies of the reasons for the problems facing existing funds. The potential for a mutual guaranty (Grameen Bank) system will be explored.

6.3 Strengthening and unifying the small contractors associations, and creating an environment in which small contractors can flourish. As part of the latter, the aim would be to make contract packages smaller, and giving them more opportunities as housing developers (as opposed to builders as such).

1. Introduction

This report is based upon the author's field visit to South Africa from January 13 - January 25. The first week was spent in Johannesburg and the second was divided between Cape Town and Durban. The study was focussed on four aspects:

- 1.1 The organisation of the building industry and the role played by small contractors within it.
- 1.2 The constraints that adversely affect the performance of small contractors.
- 1.3 The training and technical/managerial assistance needs of the small contractors as perceived by themselves and those whom they work for.
- 1.4 The sources and nature of training available to meet these needs.

2. Background

The construction industry is a major sector in all economies, noted for the fact that it can absorb large numbers of unskilled and semi skilled workers. In South Africa it has the second lowest cost of job formation, after community services, and has been the fastest growing sector in the economy (DBSA, 1991). Furthermore, the labor intensive characteristic of construction makes it easy for entrepreneurs to establish themselves in business at a low cost.

However, the small scale building contractors, although playing an essential part in the economy as service providers as well as employers, have encountered many problems, and the failure rate of small firms has been high.

This failure to thrive has meant that they cannot establish themselves and compete with larger firms, so the industry is split between a few very large firms and a very large number of small ones, and very few in between.

This characteristic pattern has been observed in other countries in the region, and even under independent governments with an avowed aim of helping small businesses the sector has not flourished.

In observing this phenomenon, RHUDO has diagnosed the problem as being a lack of managerial skills, rather than building skills, which if enhanced could allow small contractors to improve their performance and grow. Training and technical assistance

programs to address this issue have been developed for Swaziland and Zimbabwe, and are planned for Botswana.

In light of this, and as part of USAID and RHUDO's overall housing and urban development program, it was decided to examine the conditions under which small scale contractors operate in South Africa, their performance and existing training facilities.

3. The structure of the building industry

3.1 The proportion of small to large firms

The last census of the building industry, conducted in 1985, showed that 75.3% of the 13,451 firms recorded employed less than 20 persons, and that 45% of these small firms were sub-contractors.

These figures are already six years out of date and it is very likely that the recent recession, combined with political circumstances which enable an increased economic role for blacks in South Africa has led to an increase in the number of black owned firms, which implies an increased number of small firms. In addition it is considered that there has been a rapid increase in unregistered firms (i.e. ones that have not formally registered with the Government, as they are legally required to do), most of which would be very small - i.e. employing between one and five persons. As evidence of the proportion of registered to unregistered firms a survey in the Cape Province showed that 68.8% of the firms working on housing projects were unregistered. By projecting the rate of increase in construction firms since 1985, and assuming the number of unregistered small firms is equal to the registered small firms we can estimate that there are about 13,000 small contractors in total in South Africa, the great majority of which would be black owned.

3.2 Educational and skills background of the small contractors

The small firms are typically owned by a bricklayer or carpenter - unless they are a specialist subcontractor such as a plumber or electrician. They were usually started by the owner after he had gained experience with one of the large white contractors and either decided to leave to make more money, or was declared redundant. There are exceptions to this pattern, though these are numerically small. First, there are contractors that are run by business people who do not come from within the construction sector; secondly there are those who have had an academic or professional training in the construction sector.

For the most part, however, the small firms are run by people with less than ten years of schooling; a few are completely illiterate, and many face very real difficulties due to their low level of literacy and numeracy.

3.3 Regulatory Framework

For reasons that will become apparent below, the majority of small firms are not registered, and thus accurate statistics about them are difficult to obtain. Based on one sample, the average life of such firms is less than 3 years: it is therefore very difficult to know how many there are. However, for those that are registered and therefore figure in the statistics, registration implies four things.

3.3.1 The firm has higher labor costs. This is caused by two regulations:

- They must pay the statutory minimum wages. In the case of a bricklayer this is about R5 per hour; for a laborer R3 and a foreman R7. These are considerably higher than those prevailing in the non-regulated sector.

- The firm is not allowed to use labor that has not passed trade tests for "skilled" work. Because of this, unregistered contractors can undercut registered contractors, as the market rate for semi-skilled tradesman, who are sufficiently skilled for simple housebuilding, is well below the minimum wage.

3.3.2 Under the regulations, training of manpower cannot be undertaken on the job, as Trades Unions insist upon proper certification and testing, which are done in formal sector training institutions.

3.3.3 Registration must be done within one week of starting operations, and all contractors and sub-contractors - no matter how small - are required by law to do so. Each firm must be registered with the Industrial Council, the Unemployed Insurance Commissioner and the Workmen's Compensation Commissioner. When registering they must lodge a deposit with the Industrial Council to cover liabilities in the event of insolvency sufficient to cover two weeks' wages. The minimum size of the deposit is R500. The employer also has to make weekly contributions in respect of holiday, leave, pension sick and death benefits. These add about 12% to the minimum wage. The payments are made to the Industrial Council.

3.3.4 A firm with an annual turnover of more than R100,000 has to register with the Value Added Tax (VAT) authorities. This enables it to obtain rebates of the VAT (currently 10%) on inputs. Thus, small firms are charged VAT on their materials whereas larger firms (provided they are registered) can get their VAT refunded.

3.4 The Trade Associations

The apex organisation of the building industry is the Building Industry Federation of South Africa (BIFSA), and within the building (as opposed to civil engineering contracting) sector the Master Builders Association. As these represent the interests of the large contractors, there has been a proliferation of bodies representing small contractors.

3.4.1 The Small Contractors Association

This is based in Cape Town, and has a fairly small membership of contractors of all races. Its chief aim is to fight for the de-regulation of the industry which, as currently constituted, discriminates against small contractors. Chief among its targets is BIFSA, but they are also actively lobbying for more appropriate regulations directly with the Government.

3.4.2 African Builders Association (ABA)

This is one of the two major associations for black builders, and is associated with the Foundation for African Business and Consumer Services (FABCOS).

3.4.3 National African Federation of Building Industries (NAFBI)

This is the other major association, and falls under the National African Federated Chambers of Commerce (NAFCOC).

3.4.4 Soweto Builders and Developers Forum (SBDF)

Although not yet national in scope, this one plans to go national under the name Southern Africa Builders and Developers Forum.

3.4.5 In addition to the above ABA and NAFBI have local branches throughout the country.

3.4.6 In order to coordinate these parties and present a common front, Small Builders Fora have been created by interested parties in both Johannesburg and Cape Town. These are still in their infancy.

4. Constraints

The small scale of the majority of black firms places them in a very disadvantageous position relative to larger ones in some important respects.

4.1 Building Materials

4.1.1 Because their turnover is low they cannot get building materials at wholesale prices.

4.1.2 Because they cannot afford to own their own trucks or pick-ups they have to pay at inflated prices for transport of the materials to the site.

4.1.3 Because they are not registered with the VAT authorities, they have to pay 10% VAT on all their materials.

4.1.4 Because they lack bank guarantees or other credit references they have to pay cash for their materials, instead of obtaining the 60 or 90 days credit enjoyed by large firms.

4.2 Finance

4.2.1 Bridging Finance

The term "Bridging Finance" is usually used to refer to finance required to meet the cash flows during the implementation of a contract. The finance is usually rolled over several times during the contract period which is typically about six months.

Various schemes exist to cover the need for bridging finance, but under some of these loans are considered virtually unobtainable by small contractors due to the conditions and procedures. The complaints are either in terms of the delay in processing, the interference in the management of the contract, or securities required. The best known schemes for this are the IBM fund administered by Entrepreneurial Development (Southern Africa) (EDSA), the KwaZulu Finance Trust (KFT) and the Small Business Development Corporation (SBDC). Whatever the reasons, the numbers of beneficiaries appears to be small. For example the Cape Town office of the SBDC makes only 4 - 6 loans per month of about R25,000 each: a total exposure of about R500,000. (This is not due to a shortage of capital to lend: for example, the IBM fund administered by EDSA has capital in excess of R1.5 million).

4.2.2 Performance Guarantees

Formal contracts usually require that contractors provide a surety to the value of 10% of the work with the employer that can be called in case of default. Large contractors can typically obtain these at a nominal cost from their banks or insurance companies, but the lack of fixed assets and banking history in the case of small contractors make these securities virtually impossible to obtain. This effectively prevents them obtaining formal sector larger contracts.

4.2.3 Tender Deposits

Though a minor expense, requirements that contractors deposit R150 or similar amounts in order to obtain tender documents is another hurdle that they must face.

4.3 The Nature of the Contracts

4.3.1 Size

Contracts are often parcelled into units that are too large for small contractors to handle (for example 100 housing units, as compared to 5 units), even though they would be well suited to the work of building small houses. This is true of building contracts per se, as well as tenders for the purchase of land for re-sale in housing developments.

4.3.2 Format

Documentation of the contracts, especially Government contracts, is very complex even when the work is of a straightforward nature. Some Departments of Government issue tender documents only in Afrikaans, a language in which most small contractors are not proficient.

5. Summary: the present situation

5.1 The limiting factors

5.1.1 Contractors are locked into a subservient role

The constraints listed above combine to make it very difficult for small black contractors to compete on the open market with larger firms. As a result of this a symbiotic relationship has developed between the large, white contractors and the small black ones. Under this relationship the large contractors compete with each other under open tendering systems, but the actual work is done very largely by black subcontractors. In one housing project there could be as many as 50 or 100 sub-contractors working for a single main contractor. According to the census of construction, in 1985 - the latest year for which figures are available - 45% of the gross

output of the industry was subcontracted. It is considered that today's figure is about 50%.

The advantage for the main contractor is that

- he avoids the problem of the direct management of labor, and
- he saves money because subcontractors are usually not registered, and therefore pay their labor below market rates. This enables them to give the main contractor a product at a cheaper price than he could build it himself. Though it is illegal for the main contractor to employ non-registered sub-contractors this practice is very common, so some officials must be turning a blind eye to the practice.

The advantage to the sub-contractor is that he has a comparatively steady source of employment, regular payments and a limited degree of technical assistance.

However the subcontractors complain that the relationship is not an equal one: they get underpaid, they do not get compensated for delays beyond their control (e.g. materials shortages) and have no recourse in the case of a dispute.

5.1.2 The lack of an alternative market

The lack of capitalisation of small contractors is partly due to the lack of opportunities for them to do the sort of work for which they are best suited: building one-off houses for middle income persons in the black townships. This market is currently very depressed as a result of a shortage of long term finance; caused, in turn, by histories of rent and bond repayment strikes. Until confidence is restored in this market on the part of the housing finance institutions, it will remain depressed, but immediately thereafter there will be massive demand. Small contractors should be poised to provide the service as required, and if so will be able to provide an important and remunerative service.

5.2 The positive aspects

Small contractors have two important advantages:

5.2.1 Low income communities frequently insist that local black contractors should be used for all work within their neighborhood. This is a comparatively new phenomenon, and has been recognized by Government and Local Authorities so that today there is a conscious effort to get the local community to support any new developments and secondly to ensure that local contracting skills and labor are used on the work.

Unfortunately, although this effort is being made, conditions of contract etc have not been adjusted to suit the conditions and many projects are therefore at a stalemate.

5.2.2 By mostly being unregulated and un-unionised black contractors can undercut white contractors, and thereby provide a low cost service when employed as subcontractors.

6. The training, technical and managerial assistance needs of small contractors.

All interviewed agreed that the managerial performance of small contractors has been poor hitherto, and this undoubtedly partly explains their failure to thrive. In addition to the problems concerning finance referred to above, the causes of this poor performance have been ascribed to a lack of skills in areas such as:

6.1 Estimating and materials scheduling skills

The basic skills which allow the contractor to estimate his price accurately are almost completely lacking among the small contractors. Accordingly they estimate on the basis of the cost of their previous job, or rates that friends and colleagues have been paid. If they price too low they lose money on the work and default before completion (or lose what little money of their own that they had in the business), while high rates mean that they do not get the work at all.

6.2 Programming

Poor programming increases costs, through poor synchronisation of inputs. For example labor stands idle because materials are not available on the site when required, trades work in competition with each other on the same part of the building, and excessive labor is used on the work. The net result of this is to cause late completion of the job and increased costs.

6.3 Business Methods

A lack of methodology in business administration, such as little or no bookkeeping, and poor record keeping concerning stores inventories, labor hours etc, combined with a state of mind that treats building as a craft rather than a business, typify the small contractors.

7. Existing training, technical and managerial assistance programs

There is a variety of training and assistance available to the small scale building industry. The following overview starts from training for the least sophisticated skills in a progression to the most sophisticated.

7.1 Sunflower Projects

Sunflower Projects is an offshoot of the training division of Murray and Roberts, one of the largest construction firms in South Africa. Its basic goal is to equip unemployed persons with skills that they can sell on the labor market or use to start their own businesses.

The lack of manpower with the basic skills of bricklaying and carpentry etc has not been identified as a constraint to the small contractors. However it is important to mention Sunflower Projects here for two reasons:

- Their approach is perceived as an important means of helping young jobless people find a useful role in life.
- They have developed an interesting approach to this which appears to have great merit, and plan to apply the same technique to entrepreneurial training in the near future.

The starting point for Sunflower projects is to identify a community that has a need for community facilities etc, and help them obtain finance for them from Government, NGO or charitable sources. As Sunflower Projects are a subsidiary of the very large construction contractor Murray and Roberts they have many contacts which help them in this. Sunflower then prepare a cost figure for the facility with the financier and undertake to build it for that price. Instead of employing a contractor to do this they engage unemployed and unskilled members of the community. These people (about 50% are women) are first trained in the skills required such as bricklaying or plumbing, and then build the project under the guidance of the trainers provided by Sunflower.

The quality of the resulting buildings is very impressive and it is hard to believe that they are built by trainees with only 9 weeks training. Because the trainees receive only a nominal payment for their work the buildings are completed at rates which are more than competitive with the conventional building contractor even when all the overheads and training costs are included.

The majority of the Sunflower projects are subsidized by state allowances for training and engaging unemployed labor, which are currently about R7.50 per person per day. However, Sunflower are able to make a profit on these rates and claim that even without the subsidies they would be able to do so. These profits are then used to expand Sunflower's capacity.

In view of the success of this model, they have decided to go into entrepreneurial training as well. This will include training for small contractors per se, as well as labor only subcontractors whether working as individuals or as firms.

7.2 Entrepreneurial Development (Southern Africa) (EDSA)

EDSA was started, under another name, by BIFSA in order to train small builders, but before long became independent of it. The material that had been taught under BIFSA was considered insufficiently relevant to the target group and a new methodology and syllabus has now been developed to ensure relevance and intelligibility.

Currently EDSA operates in the Cape and PWV regions, and runs two courses. The most basic is designed to give the individual tradesman the knowledge required to sell his services effectively for labor only, piece work jobs. The second course is intended to train in the managerial skills required to manage a single house-building contract. The normal pre-requisite for admission to this course is successful completion of the introductory course. An advanced course is to be launched shortly, which will cater for the needs of contractors wishing to move into multi-unit contracts.

The training methodology is intended to be very flexible and responsive to the clients selected and their particular market. This is achieved in two ways: first by selecting the trainees from within the community where the training takes place, and secondly by tailoring the content of the courses to the expressed priorities of the participants. Such training methodology requires special skills and EDSA goes to some lengths to achieve this: they select trainers from within the community, and train the trainers in the techniques required for participatory training.

In 1990 EDSA conducted 15 introductory courses (144 persons) and 3 Intermediate courses (33 persons); in 1991 they conducted 22 Introductory courses (253 persons) and 11 Intermediate (94 persons). Of the introductory courses there were two pilot ones of great interest: one for civil engineering contractors, who are something of a rarity in the field of small contractors, and the other for building materials manufacturers, in this case concrete block makers.

Participants in the courses take standard performance tests which must be passed if they are to receive a certificate.

EDSA believes that its trainees are not in a position to pay for any training, and even if they could that they should not be required to do so, as such training is part of the process of equalising opportunity in the new South Africa.

7.3 KwaZulu Training Trust/Promatra

KTT is a large institution that has been operating in Natal for many years in sectors such as agriculture, metalwork and mechanics, sewing and small business management. In 1989 it started in the construction sector by giving workshops to small contractors requiring business management skills. Last year, in collaboration with a private firm, Promatra, it developed formal material for training in the fields that presented most difficulty (e.g. cost estimating and programming). This material is now completed. It takes the form of loose leaf material that is handed out at each session to the trainees, and kept by them for reference. It includes reference material, self testing modules and formal tests. Participants may not start the next module until they have successfully passed the test at the end of the previous one. The course material most widely used fills ten large ring binders.

The material is being used in project based training conducted by Promatra and KTT in Soweto and Natal on South African Housing Trust (SAHT) projects, and has been used by a private developer, Democritus, in Port Elizabeth. Under the SAHT scheme the contractors are selected to build the units by the SAHT from a short list provided by the local builders association. They enter into a negotiated contract to build about 20 houses, 5 at a time. Materials are supplied by the SAHT, but the contractor is otherwise quite independent, e.g. he can organise his work and his labor as he chooses. However, all participating contractors do so on the understanding that they will participate in the training program that is run on the site one day a week.

The entry level of each contractor in the program is determined on the basis of tests. In practice, although many contractors claim to be familiar with some or all the subject areas, their actual knowledge is so poor that they have to do the entire training program.

The training takes place over a period of 48 weeks, followed by a 12 week period of self reliance during which technical assistance with any aspect of running the job is available to those who require it.

A more advanced course is under preparation for builders who have successfully completed the first course and who can handle the management of a whole contract including the purchase of materials.

About 50 contractors are being or have been trained by this method. The cost adds between R200 and R300 to the cost of a completed house.

7.4 The Urban Foundation's Contractor Development Agency (CDA)

The Urban Foundation is quite active in the field of advocacy for small business and imparting business skills to entrepreneurs. As part of this activity a Contractor Development Agency was created. This was a pilot program intended to help black contractors in the PWV area to flourish by means of giving them access to finance and managerial assistance. This is targeted at firms that have already proven their expertise, but require further assistance to reach the level of the large white contractors.

The firms participating in the program pay 3 1/2% of their monthly turnover per month for the service: this is typically about R60,000 - R80,000 each. The technical assistance is provided by Ove Arup and Partners, an internationally recognised firm of engineers and project management consultants. They visit the contractors' jobs twice per month and are available for trouble shooting at all times. In addition the Agency provides a black non-technical advisor, assistance in dealing with banks, materials suppliers etc, as well as an accounting service for those who want it (at an extra R200 per month). 12 contractors are participating in the scheme at present. The project is supposed to be financially self sufficient. In practice the program cannot be expanded without capitalization to the level of about R500,000 per team to serve 10 - 15 contractors, which can be repaid at commercial loan terms within five years. The CDA will leave the Urban Foundation in mid 1992, and is hopeful that the necessary funding will be available to enable it to set up several additional teams and expand to other parts of the country.

7.5 Overview of the training/assistance on offer

It is clear that the programs currently on offer are serving different needs, and the degree of overlap is quite small. Sunflower is conducting basic skills training; EDSA is taking the person with basic skills and helping him or her to market them and - at the Intermediate level - to operate as a contractor. KZT is taking this further by combining training and direct project experience which will allow the contractors to manage a larger building contract. The CDA takes those who have reached that stage and gives

them more sophisticated experience and stronger relations with the financing community.

However, each group or agency, building on their current success, and aware of the great need, is planning to expand in scope. In the near future the degree of overlap will therefore increase considerably. The EDSA advanced course will cover much of the same ground as the KTT, and Sunflower is moving into some of the same ground as EDSA. Sunflower is also working with Comdev - a housing developer which is a sister company in the Murray and Roberts conglomerate - to develop a system similar to the SAHT's.

However such overlap is inconsequential compared to the need. Currently probably less than 200 (excluding EDSA's introductory course) firms are benefitting from this training. The demand could easily be ten times this much.

8. Training Issues

A number of issues occur with regularity in all discussions of training needs.

8.1 Poor schooling

The first is the inadequate schooling of many workers in the building industry. The practical consequences of this are incalculable - but can be illustrated by the fact that most of EDSA's and even many of the KTT/Promatra trainees have never handled a calculator. There are cases of illiteracy which require that, to enter a training program, the candidate must first learn to read and write or (more commonly) bring a family member to do it for him. Thus all training programs start with absolutely basic numeracy for those who require it. (The modular structure allows those that do not require it to skip the parts in which they do not need training).

8.2 The need to be responsive

All training programs claim to be structured in such a way that they are responsive to different conditions and abilities. This is achieved in three ways. The first, and most conventional, is the use of the module concept so that participants are not trained in material they already know or are not interested in. Secondly, the training agencies develop strong links with the community, and tailor training to locally expressed priorities. Lastly, and most importantly, EDSA and KTT use evaluation of their courses (including longitudinal tracer studies at KTT) to get feedback on the training. All groups field test material and keep it under continuous revision.

8.3 Fees

EDSA charges no fees, KTT charges fees that can be afforded (i.e. token fees that are subsidized), and SAHT subsidises the training and only requires that the participating contractors accept the rates at which they are paid for the job (there are complaints about these). CDA charges full costs.

While the EDSA position would appear to be valid from a historical point of view, in the current political and economic climate the payment of some fees for training is accepted by most participants provided that they sense (a) that they are getting value for money, and (b) that the training will enable them to increase their income. There were several references in meetings with contractors and others that grants made by outside agencies are often creamed-off by highly paid whites who administer them. If they perceive that their fees are going to subsidise someone else's conspicuous consumption, obviously the matter would be regarded in a different light.

8.4 Finance

Training is little use if there is a fundamental problem that prevents small contractors growing, no matter how well they manage their business. The lack of bridging finance has been identified as such a problem. Many schemes exist to provide this finance, but more work needs to be done to identify mechanisms that are appropriate and easy to access. It is an over-simplification to state that contractors cannot thrive unless the situation is changed: some have done and continue to do so. Training and managerial assistance will enable more to do so.

However, for the program to be a success this situation will have to be improved, and the facilitation of bridging finance will be an essential part of any training package.

8.5 Dependency

There is inevitably a risk that, in attempts to help contractors, such as supplying materials for them, dependency will be created. The SAHT program has been criticised for this. Any program will therefore be based, as far as possible, on replicable instruments for the delivery of finance, materials and skills. However it is considered that the empowerment of black contractors cannot be left to the market place and that an affirmative action program is required. This will address issues such as the regulatory framework, the size and content of contracts, and the creation of a better relationship between contractors and their suppliers.

8.6 Political Issues

There are two political issues that cannot be ignored.

8.6.1 Divisions within the black contractors

There are fundamental splits between the different groups of black contractors which make unity of purpose difficult to achieve. One group falls under NAFCOG which is dominated by retailers, while the other falls under FABCOS. The Soweto Builders and Developers Forum recognises neither.

The relative importance of these organisations is difficult to assess, but there can be little merit in ignoring any of them.

8.6.2 The legitimacy of the training organisations

Opinions varied about the legitimacy of the training organisations. The Urban Foundation appears to have a legitimacy image problem, so when the CDA leaves the Foundation it may gain in legitimacy. The KwaZulu Training Trust (by its title and association with the KwaZulu homeland) is inevitably associated with Inkatha, and therefore very suspect by ANC supporters. The SAHT, by being a Government Agency, does not have a very good reputation. Sunflower does not appear to have a legitimacy problem, but its association with the large white contractor community might lead some to suspect its motives. EDSA has been criticised for being closely associated with BIFSA, and although this is no longer true the concept lingers.

When questions of legitimacy were posed to the trainers they all acknowledged the problem in terms as described above but stated that the quality of the training was what counted, and in the final analysis doubts about "legitimacy" did not prevent contractors from seeking training from them. As outsiders we cannot pretend to make judgements on such matters: any system proposed therefore needs to recognise that the situation is volatile and that legitimacy issues could become impediments at any stage.

8.7 Contractors' expressed preferences

Contractors were quite explicit concerning appropriate training and trainers:

1. They would prefer black trainers to white ones.
2. They want hands-on training.
3. They want training that doesn't require them to take a significant amount of time from their work.
4. If there is a choice between high quality training that must be paid for and second class training that is free they would prefer the former, even if it means taking out a loan to do so.

9. A Program

A program to deal with the problems of small contractors, aimed at the economic and political empowerment of black contractors so that they can compete more effectively in the market place, would contain three main ingredients: strengthening and expanding their training, making bridging finance more accessible, and strengthening and unifying the small contractors associations.

It is proposed that, in order to establish the fairness and legitimacy of the small contractor program its administration be placed in the hands of an advisory committee on which representative members of their associations and USAID are represented.

The program could be managed by a contractor working on a part time basis, with periodic supervision and advice from RHUDO.

Re-flows of the finance will be placed in a Trust Fund account for which the re-programming will also be in the hands of the advisory committee.

Details are as follows:

9.1 Increasing the availability and scope of training courses and the development of training materials

The training concepts and courses being practiced in South Africa are generally appropriate and practical. They are under continuous development and appear to be responsive to changing conditions and requirements of the market place. The priority for any USAID assistance is therefore to increase the accessibility of training by increased output.

9.1.1 Training focus

The emphasis in the training should be on the individual firm and its progress through the system, and enabling it in the long run to achieve financial and technical self sufficiency. To achieve this, special emphasis will be placed in the projects to be financed by USAID under the SUDS Program to make them training projects as well as construction projects, and contractors working on them will participate as trainees.

9.1.2 Criteria for participation in the training will be developed by the committee administering the funds.

9.1.3 Criteria will be developed to determine the extent to which subsidy is required and/or is appropriate for training.

9.1.4 The identification of the agencies to undertake the training, and support for the development of new material will be undertaken by the committee.

9.2 Establishment of bridging finance fund

Creation of bridging finance mechanisms which will be more accessible than current ones and more appropriate for small contractors will be a high priority.

9.2.1 USAID grants could be utilized to leverage additional funds with those to be put aside by USAID; for example the IBM fund (see page 7) might be combined with this one.

9.2.3 The nature of the fund has to be developed as a result of the study of the problems associated with existing schemes. But it would appear likely that for the smallest contractors a system that uses the Grameen type approach of mutual guarantee based on personal bonds is the most likely to be successful, while for larger contractors a refinement of more conventional systems might be appropriate.

9.2.4 This approach is also to be developed in the field of the procurement of building materials.

9.3 Strengthening and unifying the small contractor associations, and creating an environment in which small contractors can flourish

9.3.1 Strengthening the Small Contractors Associations

The efforts of small contractor associations to help their members are both impressive and inadequate.

They are impressive because of the time and energy put into efforts to represent the interests of small contractors, and attempts to use their associations as umbrellas for getting work for their members. For example the SDBF has had guaranteed offers of work in Soweto, and currently has one contract for the rehabilitation of ablution blocks in schools. However, although they have been offered big jobs, such as rehabilitation of the railway stations in Soweto, they cannot take them as they lack the finance required for the performance guarantee and bridging finance. Likewise, Kazumba, the small contractor association based in Durban has successfully tendered on a large school building project, but cannot raise the finance required. In both these cases the contractors' association is acting as Main Contractor, and therefore taking the commercial risk, and subcontracting the work in small parts to its members. In this way they hope to raise money for their association, as well as getting work for their members. However, in both cases this is a new idea and it is too early to tell whether there are any unforeseen problems in the arrangement.

The associations are inadequate because they and their members suffer from a chronic lack of capital, and they are struggling very hard for what are, in effect, very small jobs.

9.3.2 Enhancing cooperation between the small contractors

If the bridging finance problem can be solved, there remain the other problems which were referred to above. For example small contractors lack buying power in the materials industry, their disadvantaged position as far as VAT is concerned and their lack of transport. These are all a function of smallness, and there has to be a trend to increase the size of the firms to more viable levels. However this will take time, and in the meantime there must be more cooperation between the firms so as to pool their resources more effectively.

In relation to this concept the fragmentation of the industry is a cause for concern, and a priority must be to amalgamate the two national associations. By so doing effective cooperation can be enhanced at the local level, and mechanisms could be established for firms to help each other in the fields of building materials procurement and transport. However, this is a very volatile area in which direct USAID intervention is not appropriate, though it would be a long term objective for the industry which should be facilitated and supported in a general sense throughout the program.

9.3.3 Offering smaller contracts

Support is required for parcelling contracts in appropriate sizes for small builders, and the provision of contract documents that are suitable for them. The Development Bank of Southern Africa has pioneered in this and has prepared documentation that appears to be a very large improvement.

9.3.4 Enabling small contractors to become developers

There is considerable potential for small contractors if they can expand their role to that of developers (i.e. one in which they find the capital for development such as houses and sell them on the open market). It is an excellent means of keeping a steady supply of work, and as a way of increasing capital reserves. In the current economic climate making land available for small contractors to develop will make a very significant contribution to their empowerment.

A model that has worked quite well in the past (e.g. the Delft project in Cape Town) is that the Government subdivides land and sells the right to develop plots to developers. The typical allocation is in units of hundreds if not thousands of plots, but in a few cases allocations of fives or tens have been made so that small contractors may participate. The contractors must then find clients who wish to build on the plots concerned. On two of the developments where this has taken place they jointly build show houses of the types that they will offer clients. Once a client has been found he negotiates a price and any modifications to the design with the contractor, and obtains

bond finance. The contractor is paid by the Building Society as the work proceeds. Ownership of the land does not pass to the contractor as this would create double legal etc costs, but passes directly from the original subdivider to the house purchaser.

In this way it is possible for quite small contractors to become developers with very limited financial risk.

9.3.5 Supporting current efforts to make the regulatory framework more appropriate for small contractors

There is considerable pressure on the SA Government to make the regulatory framework more appropriate for small contractors. These efforts can be supported by means of financing studies to support the case; and by supporting fora in which small contractors can develop their own proposals for a more relevant regulatory system.

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