

**Portfolio Committee briefing on the challenges faced by Small Businesses and Co-operatives in the construction sector and what strategies are in place to counter the challenges from the CBE and DPW**

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Table of Contents

[1. Introduction 3](#_Toc498810817)

[2. Vision 3](#_Toc498810818)

[3. Mission 3](#_Toc498810819)

[4. Values 3](#_Toc498810820)

[5. CBE’s Strategic goals 4](#_Toc498810821)

[6. CBE’s Transformation Mandate 4](#_Toc498810822)

[7. Challenges faced by small businesses and Cooperatives in South Africa 5](#_Toc498810823)

[8. Strategies in place to counter the challenges of small businesses and co-operatives 9](#_Toc498810824)

[9. Conclusion 10](#_Toc498810825)

# Introduction

The Council for the Built Environment (CBE) is a statutory body established under the Council for the Built Environment Act (no. 43 of 2000). It is an overarching body that coordinates the following six councils for the built environment professions - architecture, engineering, landscape architecture, project and construction management, property valuation and quantity surveying - for the purpose of instilling good conduct within the professions, transforming the professions and advising the South African government on built environment related issues.

1. **Vision**

An environment built to meet people’s needs and aspirations.

1. **Mission**

Implementing projects and programmes that address built environment issues and add value to the built environment professions, government and the general public.

1. **Values**

The following values are the principles that bind and guide the CBE in its continuous effort towards service delivery improvement:

**Integrity**

We will carry out our responsibility in a manner that will preserve and enhance the integrity of the organisation.

**Transparency**

We recognise the CBE as a public entity and commit to providing reliable information to all out stakeholders.

**Excellence**

We will endeavour to achieve the best possible standards in all we do.

**Innovation**

We will continuously seek and employ better and more affordable solutions to meet the needs of our stakeholders and end-users.

1. **CBE’s Strategic goals**

Goal 1 - Provide support to CBE, thus contributing directly and indirectly to the delivery of all strategic outcome oriented goals of the CBE.

Goal 2 - A transformed BE with appropriate, adequate skills and competencies, responsive to the country’s infrastructure delivery, operation and maintenance needs.

Goal 3 - An optimally functioning BE, with a responsive and relevant policy and legislative framework, based on informed and researched positions.

Goal 4 – BEPs that operate within a regulated policy and legislative framework.

Goal 5 - A BE that is responsive to the developmental and economic priorities of Government.

1. **CBE’s Transformation Mandate**

Repeated calls have been voiced by the Public Works Parliamentary Portfolio Committee for the CBE to provide leadership on transformation within the built environment professions. To eliminate poverty and reduce inequality, the economy must grow faster and in ways that benefit all South Africans. Transformation in the Built Environment must achieve the following outcomes:

* **A responsive built environment** – transformation within the industry is not only about progressive change in professional and regulatory practices: the ultimate goal is to ensure the responsiveness of the built environment professions industry to the broader national and public policy objectives and goals.
* **Increased participation of the previously marginalised groups in the built environment** – while the CBE’s view of transformation is based on qualitative reforms and changes, there is an aspiration to see a built environment industry that is truly representative of the demographics of the South African society. Increased participation of the previously marginalised groups in the industry, without any form of discrimination, prejudice and restrictions imposed, is one of the key objectives of the CBE.

Entrepreneurship is one of the strategies of transforming the built environment. Promoting youth entrepreneurship especially amongst the African graduates should be encourages. It should be noted that as much as the government is encouraging entrepreneurship, those participating are faced with many challenges which required further intervention by the state organs.

1. **Challenges faced by small businesses and Cooperatives in South Africa**

Small and medium sized enterprises (SMEs) are considered the engines of growth in developing countries. SMEs have historically played a vital role in creating jobs, spurring innovations, and creating new products, and thus contributed to economic vitality and growth. There is value in supporting SMEs because of their contribution in the economies world-wide, irrespective of the economy’s developmental stage.

In South Africa, SMEs have been identified by the government as a priority in job creation in order to solve the unemployment condition currently facing this country. SMEs especially those that operate in the construction sector are an important contributor to the economy and are considered a driver for reducing unemployment in South Africa as defined by the National Credit regulation Act. The government launched initiatives set to promote the work of the SMEs and their development. The South Africa Construction Industry Development Board (CIDB) when created, was mandated to carryout SME contractor’s development as a paramount aspect of their responsibilities. The Department of Trade and Industry (DTI) has business grants to support small businesses and co-operative but perhaps this is not reaching all deserving business owners.

Despite their significant importance and contribution to economic growth, SMEs across the whole world, and in South Africa in particular, are still faced with numerous challenges that inhibit entrepreneurial growth. This has resulted in high rates of business failure.

Co-operatives have a long and successful tradition around the world and have proven to be amazingly flexible in meeting a wide variety of social and economic human needs. International experience shows that countries which have achieved economic development also have a vibrant and a dynamic co-operative sector, contributing substantially to the growth of their economies. The government launched various programmes to ensure that the 2004 - 2014 objectives for the co-operative sector are timeously and effectively met. The Department of Trade and Industry 's Co-operative Incentive Scheme (CIS), which is a direct cash grant, as well as the Export Marketing and Investment Assistance (EMIA) scheme and other targeted incentives, such as the Isivande Women's Fund were launched to support the co-operatives.

The key challenges are listed below:

* 1. **Pricing and Costing**

The construction companies are always responding to tenders advertised which pricing and costing of a project is a key factor on adjudication before a tender is awarded. These small businesses are always struggling to cost accordingly which make them not favourable to win a tender. Either they price themselves out of the market or underquote, or neither situation lands them the business.

* 1. **Access to private sector work**

Small businesses in construction are over reliant on government work / tenders while the private sector markets remain largely untapped. The advantage about private sector work is that it often comes as longer term contracts thus sustaining the business.

* 1. **Set-aside Projects**

Some of these small businesses and co-operatives complain that they compete with big businesses, they require a proper system to set aside some of the projects for small businesses, black owned, and women owned, youth owned and people with disabilities owned businesses can make a difference in their businesses.

* 1. **Exposure to business environment for skills transfer**

Mentorship and training add value to new businesses but engaging with them, they feel that exposure to practical work is much needed by some businesses who are struggling to expand their markets. These businesses require opportunities to be matched with successful businesses for skills transfer purposes.

* 1. **Competition over skilled and talented labour**

Well established businesses with financial muscles are able to attract skilled and talented labour who can satisfy their clients with quality work. It is hard to keep clients in the market, unless you are able to deliver quality on time. Small businesses and co-operatives still struggle with attracting the right skills for their companies.

* 1. **Accreditation and Compliance**

The accreditations like ISO 9001 and or ISO 16001 have been identified as required accreditations which most of the private companies always ask for when the small businesses try to penetrate the private sector.

* 1. **Sub-contracting Issues**

There are very few opportunities in the small business and coops in the built environment. When these arise, in most cases, small business and cop ops become sub contracted under main big companies. This results in instability of the small businesses. Most often professionals in these small businesses, revert to government employment because of stability and certainty.

Being subcontracted also means small profit margins or none at all. This impacts negatively on the running of the business.

Some of the small contractors face challenges of exploitation by the main contractors. Some businesses feel that they are overloaded with work; they receive vague job specifications. They do not have direct communication with the client as sub-contractors and payments are delayed. Sometimes these businesses do not getting paid the full amount agreed on.

* 1. **Corruption**

Other struggles in faced by businesses in construction is corruption; big companies pay government departments to have be awarded tenders and cartels limit healthy competition on the scene.

**7.9 Finances and Cash flow**

When small businesses and co-ops get opportunities, either as subcontracts or direct from government the major difficulty is the period of payment and consistency of payments. Government pays largely after 60 - 90 days, which then makes subcontractors be paid after 90 - 120 days, and therefore straining the cash flow. This results in high staff turnover.

Most SMMEs and Coops do not have qualified book keepers or Finance Managers resulting in poor financial management thus threatening the existence of the business.

Most established banks, do not assist SMMEs financially and thus SMMEs resort to private lenders with high interest.

**7.10 Legalities**

SARS - the biggest challenge facing small businesses, is compliance with SARS and other legal frameworks including compliance with professional bodies. Whilst the government does not pay on time, SARS which is part of government expects and demand tax to be paid of time. If tax is not paid on time, SARS impose penalties, and these deplete the very small profit that the small business earn from the opportunities they get. Moreover SARS actions sometime force businesses to seek legal advice which in turn add more financial burden to the business.

Accounting firms that are supposed to assist these small businesses are usually very expensive and never finish their audits or financial management statements on time and further give SARS an opportunity to charge more interest on outstanding penalties, and further an opportunity to charge more VAT returns or any payments due to SARS. This puts a strain on the companies’ cash flow of the company.

**7.11 Diversity and business growth**

Most big companies are sustainable because they have capital, and are easily assisted financially by established banks. In some instances, they are able to diversify their products which enables them to cushion challenges by one product at a certain period of time. Small business however are not able to diversify largely because of financial incapacity and also because of lack of opportunities. Business growth therefore becomes an illusion coupled with lack of resources and professional growth within the company.

7.12 **Sustainability**

All the above 4 challenges, make small businesses and coops not to have sustainable businesses beyond 24 months. This is why most black professionals in the built environment for example prefer to be employees than business owners.

1. **Strategies in place to counter the challenges of small businesses and co-operatives**

* Government’s policies are in place to support procurement opportunities for small businesses and co-operatives.
* Department of Public Works in enforcing the 30 days payment policy.
* Minister’s stakeholder engagements to create platforms for small businesses to report on their challenges.
* Business Chambers facilitate networking platforms.
* Cidb’s contractor development

There are areas that still require much focus, these are:

* Encourage shared services for small businesses such as financial management
* Business matching to encourage profit sharing of tenders
* Professionalization and Upskilling the business owners (some through Recognition of Prior Learning initiatives)
* South Africa to invest in Research and Development to inform entrepreneurs of the what the country needs and to support innovations

1. **Conclusion**

Much ground has been covered in terms of transforming the construction industry by ensuring the small businesses for African people are up and running. It is true that when one meets with these businesses there is still an outcry of the challenges facing the business owners. There are Small Businesses and Co-operatives who are still struggling to grow their business, and to meet their clients’ needs. Research is required to assist these business to understand economic trends and to access information on the needs of their clients. Government agencies need to continue to support the businesses with their financial needs and strategies to turn their businesses around. Business matching needs to be facilitated through Business Chambers to assist these business to develop their own skills. Payments of the small businesses need to be prioritised by clients. Political Heads need to continue to monitor how procurement policies are implemented by departments. There is a need to continue to strengthen Public-Private-Partnerships to ensure skills transfer and collaborations to leverage resources.