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Unearthing Embedded Services in South Africa's Construction sector -- Some experiences



SEEP, .Washington DC – October 2004



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Ntinga LINK Programme

GOAL is to **mainstream** micro and very small businesses into the **construction** sector via access, use of value-adding, viable **Business Linkage services**

Target areas:

Where there are **opportunities** – existing and planned construction activities



...by promoting availability & access of such services through network of Business Service Providers (BSPs)



Why CONSTRUCTION?

Why LINKAGES?

Because Construction plays a very **important role in the economy**....

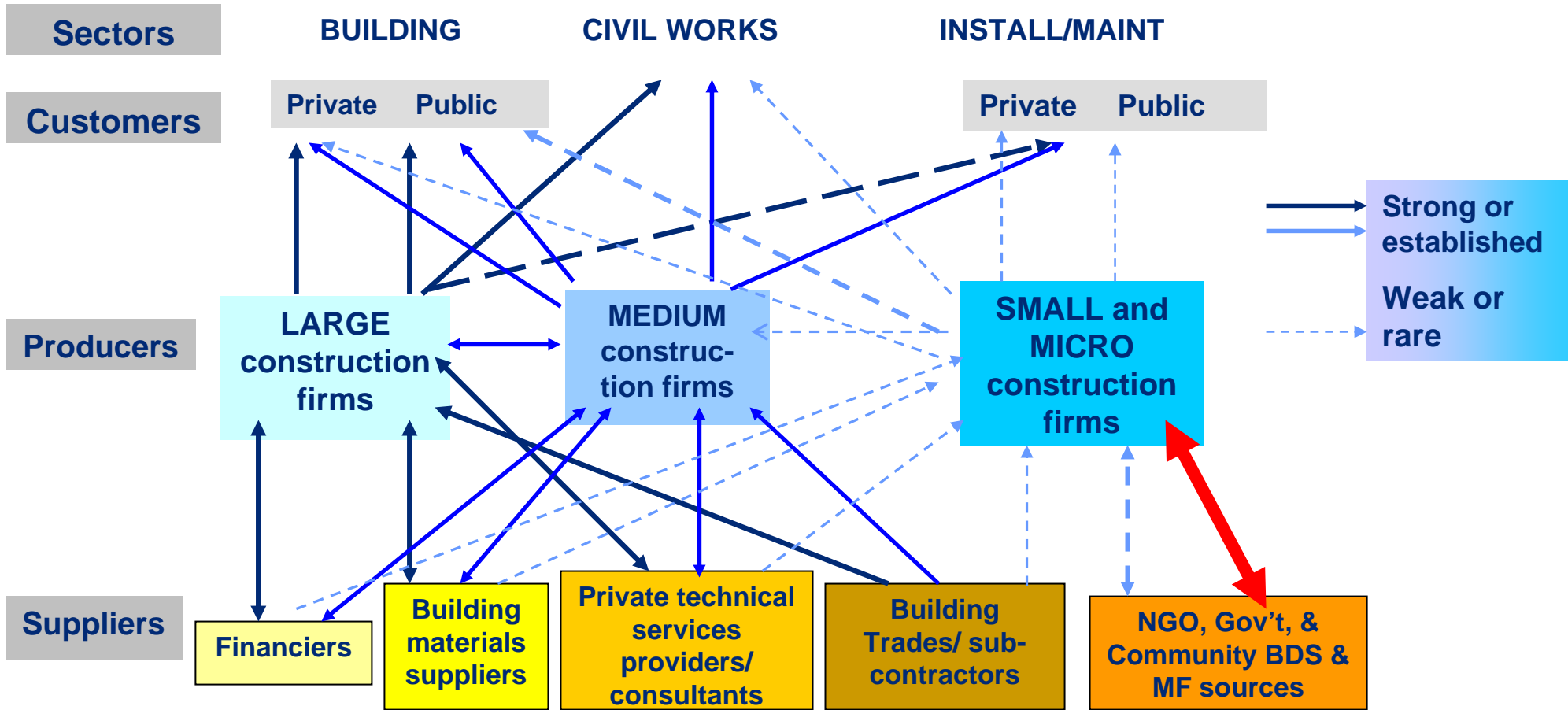
Because **38%** of SA's SMMEs are construction sector small and micro businesses

Because **OPPORTUNITIES** for growth & change exist...

... But so do **CONSTRAINTS**



Industry overview: MSEs at the margin



SECTOR STAKEHOLDERS/POLICY & REGULATORY ENVIRONMENT



The Service Gap

What contractors want,
but can't get ...

- **Costing**-estimation support
- Interpretation of complex tender **documents**
- On-site **project mgmt**, mentorship
- **Productivity** info & mgmt
- Sourcing appropriate **materials/** supplies
- **Transport** for materials and labour
- Sourcing **affordable** finance
- Access to **higher value jobs**

Typical Small Contractor BSP provides generic or 'cross-sector, non-technical services such as:

- Business plans
- Management advice
- Tender Costing
- Opportunity leads
- Sourcing finance
- Accreditation
- Compliance

Services often
• 'stand alone'
• paid for by 3rd party

What BDS Suppliers say about
Small Contractors

- Don't pay for services
- Don't see value of services
- Can't compete against large firms
- Competition from free, subsidised services

BDS Suppliers self-identified gaps:

Limited...

- Technical skills
- Procurement knowledge
- Market knowledge

- Understanding of BEE
- Project management services



Initial LINK-BSP activities

Introductions to, interaction with

- Corporates, para-statals
- Financiers
- Industry bodies
- Provincial infrastructure development authorities

BSP collaboration

- 15 BSPs organised into 2 provincial 'forums'
- Advice on linkage strategies
- Facilitated formulation of 'code of conduct'

Service development

- Skills in costing, scheduling, tendering
- Developed & tested **ULWAZI** – simplified rates costing tool
- Developed **ASANDE** – market oriented small contractor data-base & profiling system
- Training in Joint Venture management

Research, info dissemination

- Industry trends
- Opportunities
- Finance

"Before, our staff spent 1-2 days on one tender. With Ulwazi, they can complete up to 4 tenders a day."

With Asande, a KZN BSP has secured contracts with four corporates & the municipality to source small contractors



Current focus – Bringing on board value-chain BSPs

Materials Suppliers

Suppliers who provide inputs, as well as:

- Advice on costing & estimating
- Design and specifications alternatives
- Advice/oversight while using the materials
- Facilitate additional **finance** (apart from standard payment terms, discounts)



'Embedded' service - no direct payment required

Financiers

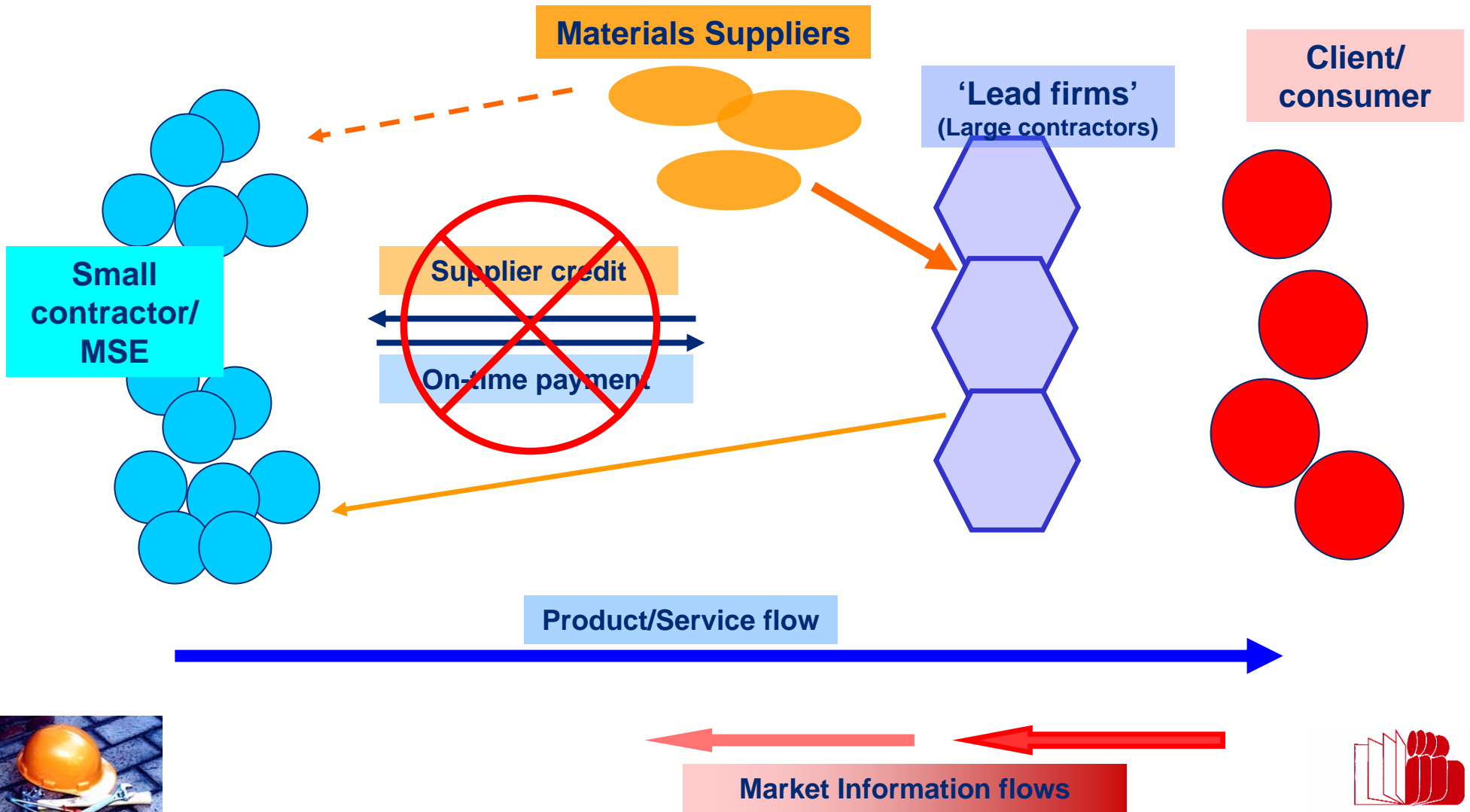
Banks, MFIs, Suppliers who provide:

- Working Capital/bridging finance
- Guarantees
- Project Insurance
- Asset Finance
- Supplier credit (payment plan)
- Overdraft

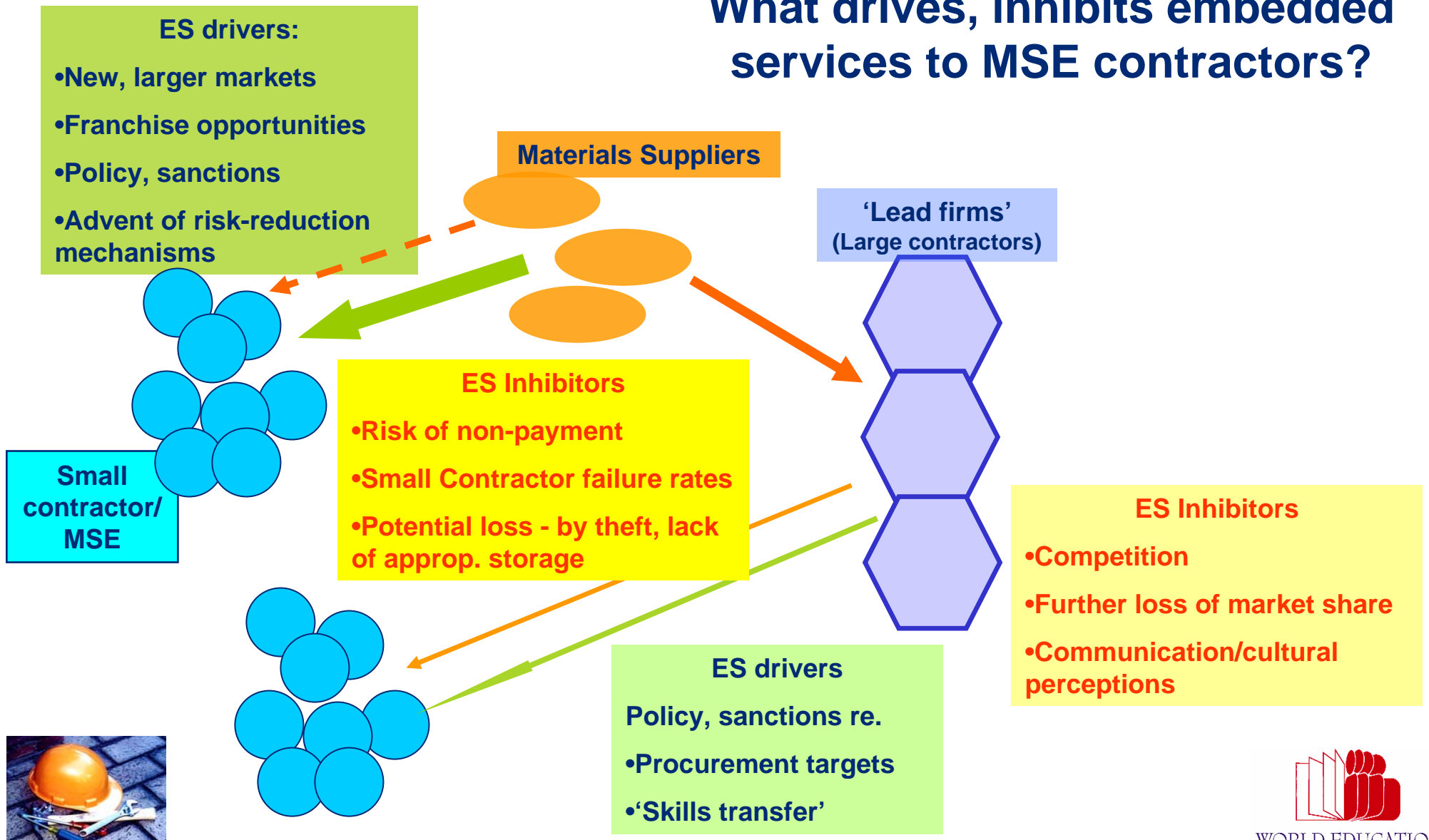
Finance treated as a B.D.S!



Construction Sector Product, Information Flows



What drives, inhibits embedded services to MSE contractors?



ES provided by Materials Suppliers – some examples

Brick manufacturer helps MSE with quantity estimates, costing

- Service gaps noted by 40% of surveyed businesses:
- Costing-estimation support
 - Interpretation of complex tender / contract documents
 - On-site mentorship
 - Productivity info & mgmt
 - Sourcing appropriate materials/ supplies
 - Transport for materials and labour
 - Sourcing affordable finance

Pipes supplier provides on-site advice – re. laying, handling of pipe fittings

Roofing manufacturer provides advice on 'alternative' materials, designs

Cement supplier willing to enter into project-based, wholesaler-retailer relationships

Pipes supplier
•Underwrites or guarantees MSEs
•Is linking with financiers to offer new product

Insurance & guarantee providers linking with pipe fittings supplier to offer specialised product



Embedded Services via Materials Suppliers: Some initial observations

ADVANTAGES

- **Credible** – comes from known, trusted source
- **Accessible** to small business
- **Affordable** – separate payment not required

Factors affecting supply

DISADVANTAGES

- **Supply-driven:** Difficult for recipient to shape service to exact needs, or to demand service quality & consistency
- **Limited pool of expertise** if confined to small group of suppliers .

Factors affecting extent of E.S. Supply

Supplier **COST** considerations

- MSE client's level of experience, need for assistance
- Size, value of specific MSE order
- Size, value of overall construction project (i.e. potential for new MSE customers)
- Visibility, exposure – for future positioning

Supplier **RISK** considerations:

- Pressure to provide, add non-core services – as MSE need is so vast
- MSEs history of failure to complete projects
- Systemic contractor payment processing delays
- Difficulties in clearly costing & calculating returns on ES

Policy environment – leveraging without distorting

Black Economic Empowerment

Concerted, government-led effort to redress past inequities. Intends to open more opportunities for black-owned, small firms to enter market & grow via...

- preferential procurement
- targeted outsourcing
- joint ventures
- skills transfer from large to small firms

Range of forces influencing BEE and large-small firm interactions

Legislated quotas

'Recommended' quotas

'Voluntary targets (large firms)

Business & change imperatives

Pure 'bottom line' considerations

Win-lose
Emerging firms gain most

WIN-WIN
Small & large firms share gains

Win-lose
Large firms gain most

Sustainability of links



The role of a facilitator

- ✓ Identify **existing ES** practices among suppliers
- ✓ **Increase access, use** of existing ES via introductions, interaction between such suppliers and MSEs
- ✓ Spawn **additional ES** via interaction between such suppliers and those not yet offering ES, with some TA
- ✓ Programme **research, documentation**

Current

Possible

- ? Help **publicise availability** of specific suppliers' ES
- ? Facilitate **development of new ES** between suppliers
- ? **Publicise pros, cons** – and returns on ES offered by specific suppliers

Constraints to facilitator role

• Translating BDS **jargon** into supplier speak

• Suppliers' **competition & confidentiality** concerns

• Suppliers unable or unwilling to specify **cost-benefit calculations** (Risk-return rationale often political rather than financial)

• **Monitoring, tracking** of services & MSE impact difficult



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Thank you



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