

**AN INVESTIGATIVE STUDY ON THE GROWTH AND SUCCESS OF
SMALL AND MEDIUM ENTERPRISES (SMEs) IN THE CONSTRUCTION
INDUSTRY IN ONDANGWA AND ONGWEDIVA**

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Abstract

In the stable economic growth, such as Namibia, small and medium enterprises in the construction industry are vital for the growth and sustainability of the county economy. The source of work of SMEs in the construction industry is through Government tenders and tenders awarded to them. The aim of this qualitative study was to determine the growth and success of small and medium enterprises (SMEs) in the construction industry in Ondangwa and Ongwediva. Data collected through interviews showed that the growth and success of the SMEs in the construction industry is depending on the companies getting tenders, SMEs contractors employing experienced and technical staff and the financial discipline of the SMEs construction owners. The chance of SMEs in the construction industry to get more tenders is depending on their ability to provide the required collateral guarantee, performance guarantee, employing qualified bookkeepers or qualified financial accountants to reconcile the company financial records, and be in good standing with the receiver of revenue and the Social Security Commission. Thus, the study identifies strategic actions that need to be taken to address the problems faced by the SMEs construction companies in the construction industry in Namibia. The government in consultation with NCCI, NIA and CIF to help to translate the conditions of FIDIC in all local languages and make them available at a cost, so that all SMEs owners can be able to read and understand the conditions of FIDIC.

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LIST OF ABBREVIATIONS

BON	Bank of Namibia
CIDB	Construction Industry Development Board
CIF	Construction Federation of Namibia
DBN	Development Bank of Namibia
DTI	Department of Trade and Industry
EPC	Conditions of for plant and Design-Build
FIDIC	International Federation of Consulting Engineers
GDP	Gross Domestic product
GRN	the Government of the Republic of Namibia
GTZ	Gesellschaft fur Technische Zusammenarbeit
ICE	International Council of Engineering
ICT	Information and Communication Technology
INQS	Institute of Namibia Quantity Surveyors
JCC	Joint Consultative Council
LARRI	Labour resource and Research Institute
MTI	Ministry of Trade and Industry
NBS	Namibia Business School
NCCI	Namibia Chamber of Commerce and Industry
NGO	Non-Governmental Organization
NIA	Namibia Institute of Architect
NAPWU	Namibia Public Workers Union
R & D	Research and Development
RSA	Republic of South Africa
SACEM	South Africa Construction Excellence Model
SBCGS	Small Business Credit Guarantee Fund/Scheme
SMEs	Small Medium Enterprises
SSC	Social Security Commission
USA	United State of America
VAT	Value Added Tax

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I pray to the almighty to give you strength, wisdom, good health and prosperity.

Declaration

By submitting this research report, I Petrus Tukondjeni Nevonga, declare that the entirety of the work contained herein is my own original work, that I am the owner of the copyright thereof (unless to the extend explicitly otherwise stated) and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

P T Nevonga

Date

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CHAPTER 1

1.1 INTRODUCTION

The small and medium enterprises (SMEs) contribute to Namibia economic development and have been declared by government as an important subject of national importance and considered to be a priority sector by government (Ministry of Trade and Industry (MTI, 1997). This chapter discusses the orientation to the study, problem statement, and objective of the study, significance of the study and limitation of the study.

1.2 ORIENTATION OF THE STUDY

April (2005) conducted a study on the factors that influence the success and failure of the Small and Medium Enterprises (SMEs) in Khomas Region, Namibia and concluded that the owners of both successful and unsuccessful businesses believed that poor financial control and credit problems are the reasons as to why businesses fail. In the same study, April also posited that business owners know the reasons why particular incidents occurred, such as the failure of business, but do not know how to deal with the problem. The main challenges facing the SMEs are competition, insecurity, lack of working capital and power interruption (Bowen, 2009).

The SMEs find it difficult to secure funding from the commercial banks due to lack of collateral facilities and therefore need government support to provide them with soft loans (Ipinge, 2010). In Pakistan, entrepreneurs noted that the business sectors are the important drivers of SMEs success (Naqvi, 2011). Considering the importance of SMEs in the economy, the researcher believes that the struggle by SMEs to secure

funding will have a negative impact on the local and national economy, as it will reduce buying power and cause the flow of less money in the economy.

The SMEs are regarded as the backbone of most growing economies, and are a key source of economic growth, dynamism, and flexibility (Bank of Namibia, 2008). The SMEs in Namibia have contributed approximately 12 percent of the Gross domestic Products (GDP) and have employed about 20 percent of the work force during 2004 (Bank of Namibia, 2008).

The Government of the Republic of Namibia (GRN) requires that a company be considered a SME if it has a workforce of not more than 20 employees, and the capital employed should not be more than N\$ 250 000 (two hundred and fifty thousand Namibian dollars) (Affirmative Action Act No. 29 of 1998). The SMEs whose labour force is less than 25 employees are not required to submit the annual affirmative action report to the office of the Equity Commissioner in accordance with the provisions of the Affirmative Action Act (Affirmative Action Act No. 29 of 1998).

The SMEs in the construction industry are required to obtain a certificate of good standing annually from the Social Security Commission, which can only be given once the SME has proven that its employees are registered with the Social Security Commission, (Social Security Commission Act No. 34 of 1994) and a certificate of good standing issued by the Ministry of Finance, indicating that the company was paying tax or submitted its annual returns to the receiver of revenue. If these requirements are not met, the company will not be able to participate in the

government tendering process and will be charged a penalty of one hundred Namibian dollars (N\$100) per day that is chargeable in terms of the income tax Act, (Income Tax Act No.6 of 2007).

The contractors conference organised by the Namibia Chamber of Commerce and Industry (NCCI) held on 23 May 2014 at Ongwediva Trade Fair described the SMEs in the construction industry as critical for government national ambition to realize vision 2030 and play a significant role in creating employment, poverty eradication, increasing capacity building as well as accelerating the economic growth of Namibia. The conference expressed concerns on the growth and success of SMEs in the construction industry and the need for a study to be conducted to investigate properly the challenges that are hampering the growth and success of the SMEs in the construction industry.

1.3 PROBLEM STATEMENT

The owners of SMEs in the construction industry in Ondangwa and Ongwediva have noted that there are no financial growths, despite their several years of existence in the industry (Bank of Namibia, 2008). The main challenges facing the SMEs are competition, insecurity, lack of working capital and power interruption (Bowen, 2009). The SMEs find it difficult to secure funding from the commercial banks due to lack of securable assets and therefore need government support to provide them with soft loans (Ipinge, 2010).

The contractors conference organized by the Namibia Chamber of Commerce and Industry (NCCI) held on 23 May 2014 at Ongwediva Trade Fair described the SMEs in the construction industry as critical for government national ambition to realize vision 2030 and play a significant role in creating employment, poverty eradication, increasing capacity building as well as accelerating the economic growth of Namibia. The conference expressed concerns on the growth and success of SMEs in the construction industry and the need for a study to be conducted to investigate properly the challenges that are hampering the growth and success of the SMEs in the construction industry.

The problem identified by the Bank of Namibia that the owners of SMEs in the construction industry in Ondangwa and Ongwediva indicated that their companies lack financial growth despite their several years of existence. The need identified by the contractor's conference in Ongwediva is what necessitated the researcher to conduct an investigative study on the growth and success of SMEs in the construction industry in Ondangwa and Ongwediva.

1.4 OBJECTIVE OF THE STUDY

- To determine the growth of SMEs in the construction industry in Ondangwa and Ongwediva
- To determine the success of SMEs in the construction industry in Ondangwa and Ongwediva
- To analyses the factors that influence the growth of SMEs in the construction industry in Ondangwa and Ongwediva
- To analyses the factors that influence the success of SMEs in the construction industry in Ondangwa and Ongwediva

- To make recommendations about the growth and success of SMEs in the construction industry.

1.5 SIGNIFICANCE OF THE STUDY

This study will be beneficial to the Government of the Republic of Namibia (GRN), NCCI and SME bank in addressing the impediments that are hindering the growth and success of the SMEs in the construction industry in Ondangwa and Ongwediva. The outcome of this study may be used by other regions or countries, to determine the growth and success of SMEs in the construction industry.

1.6 LIMITATION OF THE STUDY

The study was limited to SMEs in the construction industry in Ondangwa and Ongwediva. The researcher hopes that the participants during the data collection process will be truthful in their responses.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter provides overview of the existing literatures on the issue. The definition of SME in different countries lack uniformity and reflect the relative economic development of the respective economies. In the United States of America (USA) for instance, a small business is defined as a business with fewer than 500 employees, and in Africa that definition may represent a medium to large enterprises. In Africa small enterprises have 5 to 50 employees (Nzitunga, 2009).

The European Commission gave rise to the term small and medium enterprises (SME) in 1996 and defined the term as organizations employing fewer than 250 people. In order for a business to qualify as a SME, it should be subdivided into three parts; both the employee and the independence criteria have to be satisfied, plus either the turnover or the criteria for the balance sheet should be met (April, 2005).

In Namibia the size and characteristics of a SME as officially defined by the Ministry of Trade and Industry is that “In a manufacturing industry less than 10 (ten) employees, N\$ 1 million turnover and N\$ 500 capital employed, while all other sector, less than 5 employees, N\$ 250 000 annual turnover and N\$ 100 000 capital employed” (Nzitunga 2009, p. 9).

European banks work in a demanding international and national regulating environment. One of the issues of great importance is the Basle-II talk, which could result in an increase in the cost of lending to the SME sector. This is only one particular problem but it shows quite well the impact of the regulatory environment on the banks business and their relations with this very important customer group (United Nation, 2001).

A study conducted by Labour Resource and Research Institute (LaRRi) found that financial support was by far the most needed support by SMEs and that SMEs not only rely on their own financial resources but also “don’t even want credit as they perceive it as negative”. Perhaps even more surprising, the latter study found that the majority of Namibian SMEs did not want to use the existing business support services in the future.

LaRRi found that over 80% of all SME owners had attended both a management and a technical training course during the past 12 months. For the business with a monthly turnover below N\$ 1 300 the figure was over 90%. These empirical findings suggest that the challenges facing SMEs in Namibia only partly conform to those in other developing countries. Challenges like unreliable electricity supply and widespread corruption seem to be less of a problem in Namibia than elsewhere. However, many of the existing business support services in Namibia seem to be of little relevance to SMEs. This however, may have changed in recent years as the studies referred to in this paper were already carried out in 2002 and 2004, respectively (Jauth, 2010).

Namibia has always been rich in the amount of non-governmental organisations (NGO) in the country. Since independence Namibia has been fortunate to have many donors and supporters who have helped the country to develop and improve its working life, economy and employment. Countries like Germany, South Africa and Finland have had a significant role in supporting Namibia in many ways, and NGOs have been dependent on their support. Finland has supported Namibia in many ways and today its focus has been on entrepreneurship among others. As it was claimed earlier, there is very little industry in Namibia and the output of the country is low, which is why a large part of the goods are imported. The government of Namibia has had projects and plans for supporting the country's industrialisation and developing production of certain goods. The majority of the SMEs in Namibia are operating in retail business and significantly small amount is producing. Most of the SMEs do not even have the option to start manufacturing because they are lacking finances (Clasrissa, 2010).

The SME sector contributes an estimated 12% towards gross domestic product (GDP) and employs about 20% of the country's workforce. However, the sectors contribution to the GDP on the whole is difficult to measure due to the informal nature of such businesses and the lack of a national SME database. It is also likely that the contribution to the GDP has increased significantly over the past few years as a result of SMEs having better access to finance, and the improvement policies and strategies by public and private sector entities focusing on SME development (Clasrissa, 2010).

Unemployment is one of the main reasons why people become entrepreneurs in Namibia. There are a number of SMEs in Namibia, but the actual number is hard to evaluate because of insufficient information on informal SMEs. Many Namibians are forced to make ends meet in the informal economy. “Informal unemployment in the country is growing fast not by choice, but as the result of the formal economy’s inability to create sufficient employment opportunities”. For example, informal businesses included vendors, who are selling food at the open markets. They cannot afford to have their own premises, register their company, or pay the costs of a formal business. It is illegal to do illegal business in Namibia but vendors are a known group of SMEs in Namibia and the government is not punishing them for what they do. Illegal business is a two edged sword in my opinion in Namibia; one must have a living because the government does not give any support, but on the other hand by allowing the street vendors to continue their trade, the government is allowing people to do illegal business and the country is not gaining any tax revenue from them (Clasrissa, 2010).

SMEs have a significant role in reducing poverty and unemployment in the country, but at the moment SMEs cannot grow enough without support from outsiders. Since independence different and numerous supports service providers have operated to support and develop SMEs in Namibia. Different institutions and organizations operate at different marketing, management and bookkeeping (Clasrissa, 2010).

2.2 SME OWNERS' BUSINESS KNOWLEDGE

A study conducted in 1997 by the Ministry of Trade and Industry found that the literacy level of business owners influences the success of a business enterprises (MTI, 1997). The study identified the following constraints by SMEs in the construction industry:

- Lack of managerial training
- Lack of market information
- Low level of education
- Inability to retain staff with relevant skills and training.

According to the Ministry of Trade and Industry (2000: 24), 55% of the interviewed entrepreneurs in Windhoek were attracted to establish SMEs by the idea of being self-employed, while others preferred to be wage income earners. The same baseline survey indicates that about 60% of all SME owners are women. Labour Resource and research Institute research found out that most banks prefer giving credit to women entrepreneurs since they are said to honour credit repayment better than men (LaRRI, 2002).

A study conducted by Ahuja (2009) in Indian construction Industry found that one of the most important issues that hinders the growth of SMEs in the construction industry and globalised scenarios is that of access to appropriate technology when technology up gradation is the key to facing global competition.

The highest barriers to the SMEs in the construction industry are poor supply chain management of contractors, sub-contractors, specialists and suppliers in the

construction projects. This barrier has been considered as an industry related barrier, instead of project related barrier (Ahuja, 2009.)

Sexton (2009) conducted a study in the construction industry in Malaysia. The study found that the success of the SMEs is hindered by four unique challenges and characteristics:

- Lack of technical staffs, which restrict their ability to accept appropriate research and development.
- Lack of resources for external interaction that result in limited information and awareness about new technical trends and opportunities.
- Lack of management expertise because most are dominated by the single owner or small team
- Lack of financial resources, which result in a limited scope for new capital or ongoing investment for new technologies.

According to the CIDB (2006), Research and Development (R&D) investment in the Malaysian construction industry ranges from negligible to non-existent. The reason is partly the difficulty of patenting new ideas in construction and partly the manner that construction businesses are organised with multiple sub-contracting layers and notably few direct employees. For most construction SMEs, cost and affordability are critical. With the minimum number of staff and expertise, they usually cannot afford to have their own R&D team in the specific field to generate their own background knowledge and act on product development and new technologies.

Sexton and Barret (2003) identified that the motivations of small construction organisations influenced their characteristics. They found that the main motivation for

construction SMEs is survival, followed by stability and development. The niche market in which they operate and their limited resources, most small construction organisations only concentrate on projects. Their main focus is project delivery instead of the corporate development of the business. According to Sexton and Barret (2003), only after the organisations have confidently achieved the survival stage, they are motivated to look towards consolidating and stabilizing their position over the medium term. The stability stage will further provide motivation for development and growth.

Adendorff (2011) found that the development and growth of construction SMEs are important for all countries, as a strong construction SME base has the capacity to produce a high quantity infrastructure for the country. While Ofori (2009) posited that the development and growth of construction SMEs are important issues for all countries, as a strong SME base has the ability to produce quality and timeously delivery of infrastructure for the country.

On the other hand, Dlungwana (2002) indicated in a study that construction SMEs face many problems when dealing with construction projects and as a result poor performance and poor quality of work are prevalent among SMEs in the construction industry.

The South Africa construction industry has experienced a considerable growth and success, particularly as a result of the governments considerable infrastructural spending, which was extended to the 2010 FIFA World Cup and has been further extended in the current 2014 national budget in order to stimulate growth in the

economy because of the multipliers effect that comes from the construction industry. The construction industry contribution to South Africa's GDP is estimated to be 13% between 2007 and 2012 (stats RSA, 2013). The industry was one of only a few sectors to have increased its contributions to GDP by a further 2.3% during the third quarter estimate of 2013. However, the growth in the industry cannot be considered in terms of the number of contractors moving from the lower to the upper grades of the CIDB register of contractors, as it is recorded that about 95% of all registered contractors that can be categorized as SMEs which fall within level 1-4 of the Construction Industry Development Boards classification system (Stats SA, 2013).

South African construction SMEs faces many problems when dealing with construction projects as common to other SME types which results in, poor project performance and poor quality of work in the execution of construction projects the industry (Dlungwana, 2002). Since clients require value for money for commissioned projects, Barry and Sebone (2009) and Adendorff, Appels and Botha (2011) infer that when construction SMEs consistently deliver poor quality projects, this in turn, lead to the low success rate of SMEs. Likewise, Ofori (2009) informs that SMEs in all sectors faces challenges but the unique ones to construction SMEs, which greatly hinders their growth and development include, contractors low level of bargaining power during the tendering process, project based nature of work which implies discontinuity and mode of work done payment by the client (client only pays for work that has been completed) which hinders their effective cash flow to execute the job.

Successful businesses are those that continuously introduce new and improved varieties of products. Small businesses are more flexible and better able to adapt to market conditions. Therefore, it is important to create an environment conducive in which small businesses can operate, innovate and create needed jobs as a strategy to better economic development (Edmiston, 2004). The contribution, which small businesses can make to national economy and wealth creation need to be recognized by the government from the beginning and be considered as part of the economic development process. Small businesses, which can be defined as small firms with less than 500 employees are integral part of any national economy (Edmiston, 2007).

At the core of urgent efforts to improve the economic situation of developing countries, a strong focus on macroeconomic stabilization including the promotion of SMEs, the pursuance of massive trade and investment liberalization programme are vital to encourage foreign direct investment (DTI, 2004). In order to achieve this, the country should move towards relaxation of most restrictions on current and capital transfers, introduces tax relief to investors as well as improve access to foreign exchange at near market rates, in order to create a conducive environment, where small businesses could be promoted (DTI, 2002).

In the economy of the United States of America, small businesses are considered as job creators and are what really drive the US economy. Small businesses with fewer than 500 employees drive the U.S by providing jobs for every half of the nations workforce. During 2001-2002, small businesses with less than 20 employees increased employment by 853,074. From the socio- economic development viewpoint, SMEs provide a variety of benefits (Advani, 1997). SMEs have

advantages over large-scale businesses because they can adapt easily to market conditions and they can withstand adverse economic conditions given their flexible nature. They are more labour intensive than larger firms and they have lower capital costs associated with job creation. They play critical roles to ensure market stability, employment and economic growth (Liedholm and Mead, 1987; Schmitz 1995)

2.3 ORGANISATIONAL STRATEGIC DIRECTION

The success of the organization is determined by its adaptability to its environment as well as the strategies that are in place to guide its adaptation process. A strategy, according to Mintzberg and Quinn (1996) is a plan, intended course of action or a guideline that helps a person to deal with a situation. Mintz and Quinn further note that the “kind of knowledge involved in strategic thinking is not intellectual knowledge, not analytical reports or abstract facts and figures (though these can help), but personal knowledge, intimate understanding, equivalent to a craftsman’s feels for the clay” (p.10). However, SMEs armed with the knowledge of their business need to adopt best practices and new management techniques to further manage their enterprises.

2.4 ROLE OF GOVERNMENT IN ALLEVIATING THE PLIGHT OF SMES

The MTI (2004) lists the following activities as government priority areas and core functions as indicated in the government SME policy:

- Regulation and policy framework;
- Trade facilitation/information;
- Networking and promoting of broad participation in planning and development;

- Facilitating local access to foreign resources;
- Limited role in marketing and promotion;
- Registration

Research finding by GTZ (*Gesellschaft für Technische Zusammenarbeit*) and JCC (2008) highlighted a problem that SME owners in Namibia do not fully understand the role of government. Government's role is to facilitate development by creating a conducive and enabling environment. SMEs expect Government to be directly involved in the development of their businesses and the SME sector as a whole. Such direct interventions will influence the market dynamics, and defeat the purpose of a free market economy. SMEs have a sense of entitlement to Government's interventions and therefore lack commitment towards their projects. Above perceptions and attitudes have led to the closure of SBCGS (Small Business Credit Guarantee Fund/Scheme) due to high default risk experienced.

2.5 INTERNATIONAL FEDERATION OF CONSULTING ENGINEERS (FIDIC)

FIDIC, has set conditions of contract for constitution for building and Engineering works designed by the employer. According to FIDIC, (1999) the terms of the conditions of contract for construction have been prepared by the Federation International Federation of Consulting Engineers (FIDIC) and are recommended for general use for the purpose of the construction (excluding most design) of building or engineering works where tenders are invited on an international basis. Modifications to the Conditions may be required in some legal jurisdictions, particularly if they are to be used on domestic contracts.

Under the usual arrangements for this type of contract, the Contractor constructs the works in accordance with the design details provided by the employer or his representative, the Engineer. Although these conditions allow for the possibility that the contractor may be required to design parts of the permanent works, they are not intended for use where most of the works are designed by the contractor. For these works, it would be more appropriate to utilize FIDIC's conditions of contract for Plant and Design-Building or conditions of contract for EPC/Turnkey projects.

2.6 CIVIL ENGINEERING CONTRACT ADMINISTRATION

The SMEs in the construction industry are in two categories namely, Civil Engineering Administration and Building Contracts. The construction work performed by SMEs in the construction industry can either be for civil engineering or building work. Although the structure differs, in their structures, they all have the employer and contractor, which are regulated in terms of the International Federation of Consulting Engineers (FIDIC). The employer is the client or promoter, and is the one who commission the work and pay the design and construction costs. The employer is therefore the most important party of the contract, for without the employer there would be no work and therefore no work for either engineering or building contractor. The employers came from two sectors, namely the public sector or the private sector. Public sector includes government departments, local authorities, nationalized industries and public utilities. The private sector includes multinational organizations and corporations.

The contractor is person or a company to whom the contract has been awarded work by the employer and includes the contractor's personal representatives, successors and permitted assigns, which could be the SMEs owners or large companies in the construction industries. In the contract, the contractor undertakes to carry out the work in accordance with the contract, specifically to construct and complete the work (Atkinson, 1992).

2.7 ENGINEERING AND BUILDING WORKS

The SMEs works in the construction industry are in a form of engineering and construction works. The engineering work includes the construction of tarred and gravel roads in urban and rural areas, servicing of lands in local authorities, electrification and sewage.

The building work includes the construction of building of Offices, Schools, Health facilities and all other building work. The Engineering and building works are awarded to SMEs contractors through tendering process. The SMEs, who intend to apply for work of the advertised tenders, have to buy and complete the tender document. They are obliged to comply with the tender procedures and requirements, if not, they will be disqualified, and in that case they will not be able to be short-listed.

FIDIC, set out the conditions of contracts, general conditions, rules of adjudication and notes for guidance which are recommended for engineering and building work of relatively small capital values. However depending on the type of work and the circumstances, the conditions may be for contracts of greater value. The conditions of

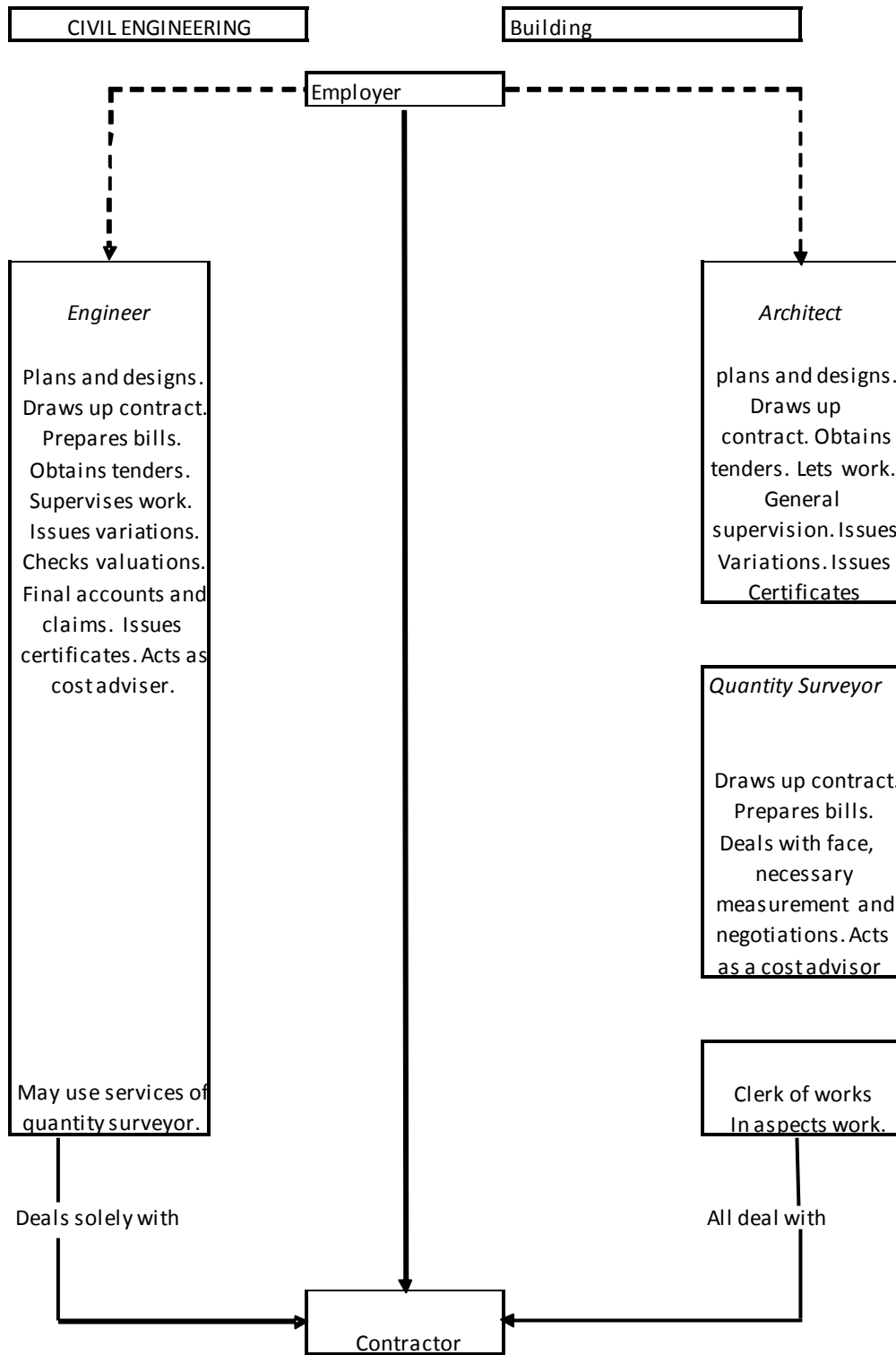
contracts as set out by FIDIC are considered most likely to be suitable for fairly simple work or repetitive work or work of short duration without the need for specialized contractors.

The public or private sector awards tenders for work through the tendering process as invited SMEs in the construction industry. Therefore, the SMEs growth and success is depended on them getting tenders for work and by complying with the requirements of work awarded to them as per the terms and conditions of the tender. It is very important to discuss first the process and procedures, which should be followed by the SMEs in the construction industry to be awarded tenders and the difference between the civil engineering contract administration and conditions of building, contract.

The condition of contracts for contractors as set out in FIDIC is to guide the SMEs in the construction industry on how to prepare and submit their tender documents to the employer or representative of the employer.

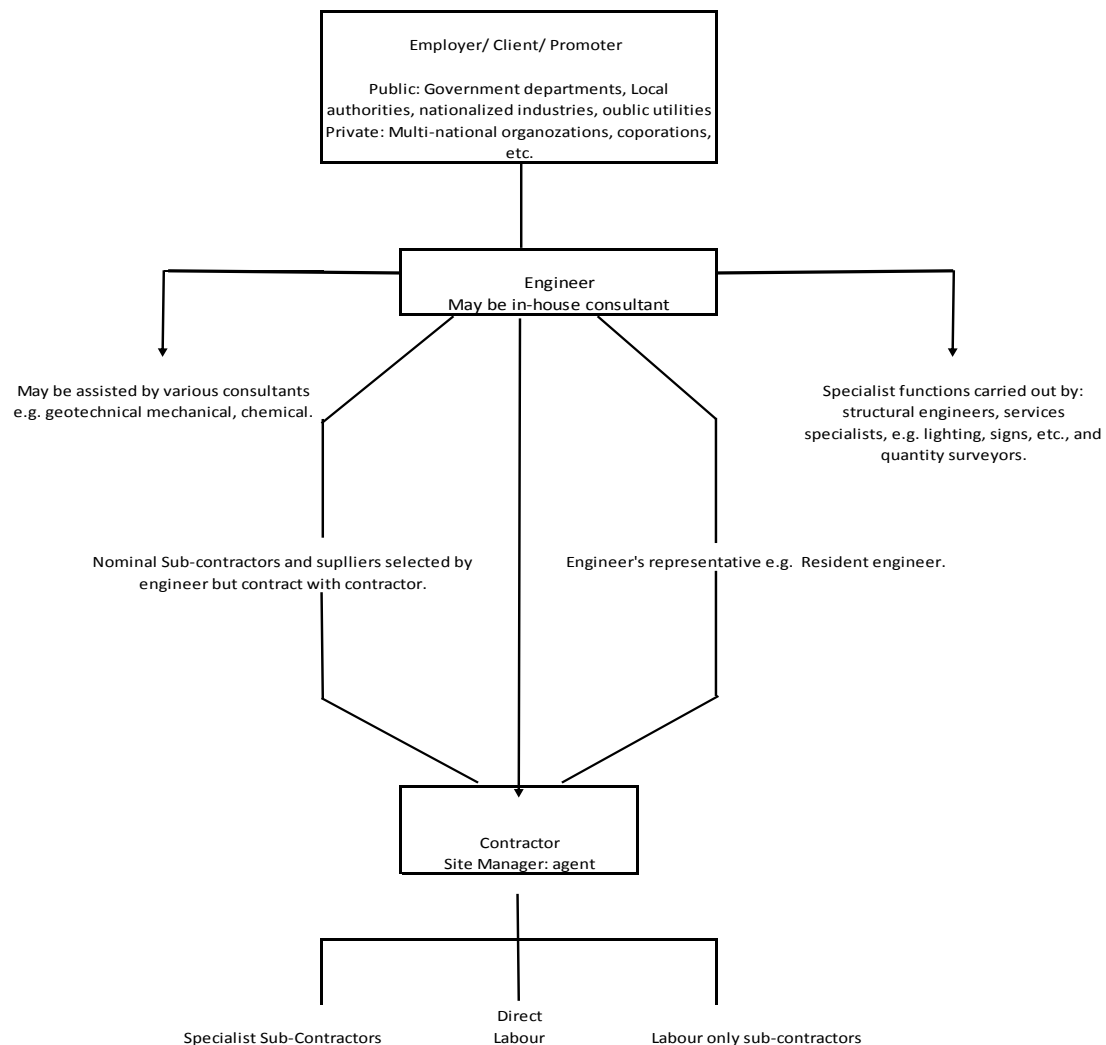
In the construction business, different entities have different responsibilities, functions and obligations. Atkinson (1992) developed a framework for civil administration engineering and building contract structures as indicated in figure 1, which is also used by construction industry and GRN.

Figure 1: The Civil Engineering Administration and Building Contract structures, indicating responsibilities, their functions and obligations of all parties involved.



2.8 THE CIVIL ENGINEERING RELATIONSHIPS

The Civil Engineering relationships where an engineer is appointed by the employer to administer a contract. The power and duties vested in him are restricted to him. The engineers duty as an agent of the employer is to supervise the construction work and to ensure that the contractor comply with the conditions of the contact, as is expected to act impartially honestly, and with professional integrity toward both parties to the contract (Atkinson, 1992). This civil engineering relationship is also being used by the construction industry in Namibia, as indicated in figure 2.

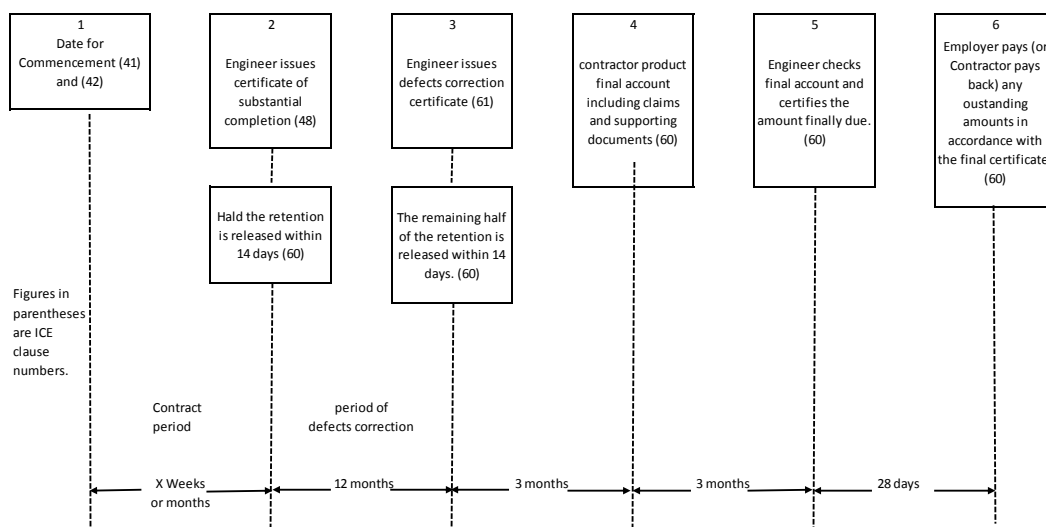


(Atkinson, 1992)

2.9 CERTIFICATE OF PAYMENT TO CONTRACTORS (SMEs)

Certificate and payment for the work carried out by the contractor is the next step in the contractual process after measurement and valuation of the actual work done. The payment certificate should be in compliance with the International Council of Engineering (ICE) and the Engineering Council of Namibia, as indicated in figure 3.

Figures 3: Issuing of certificates, payment-sequence and time requirements



Civil Engineering Contract Administration (Atkinson, 1992).

2.10 CONDITIONS OF BUILDING CONTRACTS

The conditions of building contract as prescribed in a form, which is known as a white form was approved and recommended by the Namibian Institute of Architects (NIA), the Institute of Namibia Quantity Surveyors (INQS), and the Construction Federation of Namibia (CIF).

According to the white form, the contract is under strict condition to comply with and duly execute any work comprised in such principal agent's instruction as set out in the agreement and schedule of conditions of employment.

The conditions of contract in the white form states, all procedure's relating to specifications of the building, architectural drawing which contains sufficient descriptive, explanatory notes and dimensions to ensure that the quantities are taken accurately and that work is carried out correctly.

Once the architectural plan of the building is drawn up by the architect and approved by the approving authority, and the bill of quantity is obtained from the quantity surveyor, the architect or the principle agent invite tender on behalf of the employer. The successful bidder (SME) is then awarded a tender, subject to the parties securing the agreement and the schedule of conditions of building contract.

2.11 IMPORTANT PARTS OF A TENDER DOCUMENT

SMEs in the construction industry lost revenue due to incorrect tender processes. Atkinson (1992) developed a framework which includes the tender process used by SMEs in the construction industry and is also used as a guideline by the GRN. See figure 4, seven important parts of a tender document.

Important Parts of a Tender Document	
Part one	The conditions of tender, which indicate when the tender is closing, description of work to be performed, documents that should be attached, letter of intend
Part two	Specific conditions of the tender to that particular work.
Part Three	Preamble to the bill of quantity, which is a forward to the bill of quantity
Part four	A bill of quantity with the descriptions of items, where the tendering contractor should fill in the rates.
Part five	The forms of indemnity where the

	<p>contractor if awarded a tender, identify the employer/client and the representative of the employer if should something happen at the site.</p> <p>The form of inspection, which indicates that, the contractor was on the site before submitting a tender and a completed document.</p> <p>The form of agreement between the employer and the contractor, where both parties should initialize both pages and other forms where a contractor should indicate his/her experience, key personnel as well as plant and equipment.</p>
<p>Part six</p>	<p>Appendix to tender documents which; indicate the address of the employer and contractors, project duration, the amount insured and conditions of penalties.</p>
<p>Part Seven</p>	<p>The drawings of the structure to be erected. When the tender document does not contain those four parts, then it can be regarded as a complete tender document.</p> <p>It is therefore important that all SMEs in</p>

	the construction industry are well acquainted with the composition of the tender document.
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2.12 CONCLUSION

The literature review confirmed that SMEs are faced with many challenges, which include the lack of financial support, low level of education, lack of managerial training, lack of market information and inability to retain staff with relevant skills and training. The literature further revealed that the success of any organization is determined by its adaptability to its environment as well as strategies that are in place to guide its adaptation process. Important information for the benefit of the study such as the types of SMEs in the construction industry, their structures, payment process as well as the characteristics of the tender document are also discussed in the literature.

Additional important information, which comes out from the literature review is the source of work of the SMEs and the process they follow to get work through the tendering process. Although the literature discussed many issues relating to SMEs, the researcher did not find a study on the growth and success of the SMEs in the construction industry in Namibia.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

In this chapter, research instruments needed to gather the relevant information have been listed and the methodology used to collect and analyse data is explained. The chapter includes the research design, the target population, sample strategy, the data collection instrument, data collection procurers, and data analysis and research ethics.

3.2 RESEARCH DESIGN

The study is a qualitative study and it has a case study design. The reason for choosing this type of research method is because the researcher believes that it is the best method for the purpose of this study, as it uses in-depth interviews to provide rich data, details and insight from the respondents. According to Creswell (2013) a good qualitative case study presents an in-depth understanding of the study.

Interviews were conducted with the SMEs owners in the construction industry in Ondangwa and Ongwediva. The information gathered was used to obtain historic view of the challenges faced by the SMEs in the construction industry. The information collected from the interviews further helped to enhance the recommendations in chapter 5 of the research report.

3.3 POPULATION

The population of the study is 50 registered SMEs in Ondangwa and Ongwediva. The registered SMEs in the construction industry in Ondangwa are 21 and 29 in Ongwediva. The owners of the SMEs will be targeted for interviews.

3.4 SAMPLE

A non-probability, purposive samplings of 14 SMEs are generated from the population of 50 registered SMEs in the construction industry in Ondangwa and Ongwediva. Thus 7 SMEs from Ondangwa and Ongwediva respectively.

3.5 DATA COLLECTION INSTRUMENT

The study used an interview guide to collect data, which was done through face- to-face interviews. This method was found suitable because the respondents were asked to reveal information about the challenges they are encountering in the industry. The information gathered from the interviews was used to make informed recommendations to the stakeholders.

3.6 DATA COLLECTING PROCEDURES

A letter for permission was distributed to the respondents (owners of SMEs). In the letter, the researcher explained the purpose of the study and that information will be obtained through interviews. After permissions were received, the researcher scheduled appointments with the participants. The researcher conducted interviews by using an interview guide. A tape recorder was used to collect the data as well as taking notes to ensure the quality of the data. In cases were the respondents spoke another language other than English, a translator was used.

3.7 DATA ANALYSIS

After all the interviews were completed, the researcher used content analysis to summarise and categories the interview field notes as well as recorded data according to their common themes. The researcher organised data, breaking it into manageable units, synthesising data, discerning patterns of situations, and discovering what is important and what is learned. The notes on the responses were rewritten for clarity and the responses on the tape recorder were transcribed. A coding system to code all the responses was used.

3.8 RESEARCH ETHICS

The study was carried in line with ethical principle of integrity and respect of the respondents throughout the entire study. The researcher assured the respondents that data collected from them is to be used solely for the purpose of the study and they will have open access to results once published. During the entire investigation, anonymity and confidentiality were maintained. The research data is locked in a cabinet in the office of the researcher for the next 5 years, and he is the only one who can have access to the data.

CHAPTER 4

DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION

This chapter is devoted to analysing and discussing the results. The results revealed the factors that impact growth and success of the SMEs in the construction industry in Ondangwa and Ongwediva.

The growth and success of the SMEs in the construction industry in Ondangwa and Ongwediva were investigated based on the following objectives of the study.

- To determine the growth of SMEs in the construction industry in Ondangwa and Ongwediva
- To determine the success of SMEs in the construction industry in Ondangwa and Ongwediva
- To analyse the factors that influence the growth of SMEs in the construction industry in Ondangwa and Ongwediva
- To analyse the factors that influence the success of SMEs in the construction industry in Ondangwa and Ongwediva
- To make recommendations about the growth and success of SMEs in the construction industry.

The researcher-collected data through face-to-face interviews as indicated in the methodology section.

4.2 FINDINGS

Based on the responses from the participants, the researcher developed themes to summarise the data collected through face-to-face interviews.

4.2.1 THE IMPORTANCE OF THE SMEs IN THE CONSTRUCTUION INDUSTRY AND THEIR REQUIREMENTS

The SMEs in the construction industry contribute to the Namibian economic growth and employment creation. The government has declared SMEs as an important subject of the National Agenda. The SMEs in the construction industry are required to obtain a certificate of good standing annually, from the Social Security Commission (SSC), which prove that their employees are registered with the Commission. In addition they are required to submit another certificate of good standing issued by the Ministry of Finance, indicating that, they are paying tax or are submitting annual tax return to the receiver of revenue.

SMEs who fail to submit those certificates of good standing are penalised and prohibited from participate in the government tenders because they are not in good standing. The government is the biggest supplier of work to the SMEs in the construction industry. Therefore, SMEs, which fails to submit their return to the Receiver of Revenue and register their employees with SSC in terms of the Social Security Act, will not be able to get tenders/work from the government and as a result their growth and success will be negatively affected.

4.2.2 WHY SMEs FAIL TO SUBMIT THEIR RETURN TO THE RECEIVER OF REVENUE AND REGISTER THEIR EMPLOYEES WITH THE SOCIAL SECURITY COMMISSION (SSC).

The majority of the SME owners in the construction industry, especially the building contractors given their background, they have a low level of education and only rely on their work experience. This poses serious challenges to them to read and understand government policies and regulations. This include understanding the importance of submitting their annual return to the receiver of revenue and the registration of their employees with the Social Security Commission and the risk they are facing for not complying with the Receiver of Revenue and SSC.

The SMEs once they are banned form tendering government tenders due to non-compliance they start looking for tenders from the private sector, which they hardly get. The government then starts to demand from them to submit their annual returns for the period they defaulted the receiver of revenue and impose heavy penalties on them. As a punitive measure the Ministry deduct all the money coming into the business account of the SME concerned until such a time when the amount owed to the receiver is fully paid up.

The problem with this is that when the employer pays money to the contractor for the work done, the contractor concerned (SME) is expected to buy project material, pay suppliers, pay employees and pay for all the hired equipment. The contractor finds it difficult to honour those obligations because the Government takes out the money paid into the SME business account from the account. The government put notice to the business account of the SME concerned prohibiting any transactions do be debited from that account.

The non-compliance by the SMEs in the construction industry with the requirements by the Receiver of Revenue and SSC has a serious negative impact to the growth and success of the SME in the construction industry, as they are unable to complete the project on time or not at all. These SMEs also run the risk of losing experienced staff on the site due to financial constraints.

4.2.3 THE IMPORTANCE OF SITE INSPECTION DURING THE TENDERING PROCESS

The employer representative, who can either be the engineer or the architect of the project to be tendered by the SMEs in the construction industry, invites all SMEs who are willing to tender to go for site inspection on a set date or specific date and time. All SMEs contractor whose companies were represented at the site inspection have to complete and sign form to indicating that they have familiarised themselves with the site work the work is to be performed. The site inspection is conducted before the contractors submit their tender document, in order to present them with an opportunity to know whether the area is rocky, bushy or has water to be pumped out should that be the case the SME will submit a project cost for excavation or pumping of water.

Once the SME contractor submit a tender document with the rates, those rates cannot be changed thereafter, except where the commencement of the project was delayed for some time and there was an increase in the price of materials during that period. In that case the contractor is allowed to adjust the rates equal to the price increase.

When a contractor sent an inexperienced person for site inspection and the area has bushes, big rocks or water, and the cost of removing those was not accounted for in the project cost, that cost has to be borne by such contractor. The purpose of the SMEs in the construction industry to be in business is to maximize their profit in order to grow and become successful. Therefore another problem identified as preventing the SMEs in the construction industry from growing and becoming successful is under costing, which results in SME contractor using own money to finance the project cost items which were overlooked during the site inspection or abandoning the project because there's no money to finance the project shortfalls.

4.2.4 THE UNDERSTANDING OF THE SMEs CONTRACTORS OF POLICY GUIDELINE THAT GOVERNS THE CIVIL ENGINEERING ADMINISTRATION AND BUILDING CONTRACT WORKS.

The civil engineering administration and building contract works are regulated by FIDIC, which set out condition of contracts, general conditions, conditions of ad justification and notes for guidance which are recommended for engineering and building work. The civil engineering works are work of professionals who are trained in that area of work, and therefore most of the SMEs owners of companies are well aquatinted with the provisions and guidelines as set by FIDIC.

The SMEs owners of building contract works, most of them have not seen or read the FIDIC's condition of contracts for building and engineering works. Their right and obligations are presented in FIDIC, but they do not know them. The understanding of FIDIC conditions by SMEs in the construction industry it enhance their growth and success. The fact that most of these SMEs owners in the construction industry do not know their rights and obligations as prescribed in FIDIC, it limits their growth and success.

4.2.5 THE SMEs CONTRACTORS' UNDERSTANDING OF THE TENDER DOCUMENTS AND PROPER COSTING OF THE PROJECT

The success and growth of the SMEs is dependent on the tenders awarded to them through tendering process and proper project management. The sources of work of the SMEs contractors are tenders awarded to them by the employer. The SMEs contractors understand the tender documents, but sometimes they under quote the project. Tenders awarded by employers are only beneficial to the SMEs Contractors when the costing is done properly. Most of the SMEs contractors submit their tender document with under quoted project rates due to lack of proper site inspection and being desperate for work.

Although the SMEs contractors are knowledgeable on how to complete a tender document and all the procedures involved, in most cases they fail to hand it in due to non-compliance with requirements by the receiver of revenue and the SSC, which limit their growth and success as they cannot get job.

4.2.6 THE ABILITY OF THE SMEs CONTRACTORS TO COMPLETE PROJECT WORK ON TIME AS PER THE PROJECT AGREEMENT

The SMEs contractors for civil engineering work most of them do complete their work on time in accordance with the project agreement. However most SMEs building contractors are unable to complete their work in accordance with project agreement. This situation is contributed factors such as:

- The Lack of experienced and technical staff
- Financial discipline

- Under costing of the project cost
- Delay in progress payment
- Regular site inspection

4.2.7 LACK OF EXPERIENCED AND TECHNICAL STAFF

Some SMEs building contractors employ inexperienced staff to perform key functions of the project on site. The purpose for doing this is to pay less on labour cost, with the aim to make more profit after completion of the project. These however come out expensive to the contractor at the end of the day due to substandard work.

If the building is not build according to the set standard and specifications, the architect, structural engineer or electrical engineer may order what was built incorrectly to be rebuilt. This is done at the cost of the contractor, and it has a negative impact on the completion date.

4.2.8 FINANCIAL DISCIPLINE

Some SMEs building contractors in Ondangwa and Ongwediva draw money from the business for their own use and buying things that have nothing to do with the project or recorded as company assets. Ultimately, they have no money to buy project materials, labour and other project related resources. The fact that they are the owners of their businesses, they are not able to distinguish between them as natural persons and the business as juristic persons. This practice put them in a position where they are unable to complete the project on time, abandoning the project, losing their collateral guarantee and it impact negatively on the growth and success of the business.

4.2.9 BOOKKEEPING

Some SMEs in the construction industry in Ondangwa and Ongwediva have not employed qualified book keepers or financial accountants to reconcile their companies financial records because they do not see the need due to lack of understanding of the importance to employ a qualified financial officer, and unwilling to pay higher salaries for such services.

This is one of the reasons that their accounting books are not up to date, no good financial records and the VAT and tax are not paid to the receiver of revenue. These SMEs when asked by the receiver to produce their financial record, they are unable to do so, because they have not employed a qualified financial accountant or bookkeeper to reconcile the company financial books. Therefore they get penalised by the receiver of revenue, to the extent that they are banned from tendering and there are restrictions put on their company's bank account by the Ministry of Finance.

4.2.10 PROJECT COSTING

The proper costing of project is important for the growth and success of the SMEs contactors. Once SME contractor is awarded a tender as per the rates quoted, it can no longer be changed. Therefore it is important for the SMEs contractors to ensure that their projects cost rates are correct. Some SMEs contractors abandoned their project and loose the collateral guarantee, which could a family house or a property given as collateral guarantee due to lack of proper project costing.

4.2.11 PROGRESS PAYMENT

The delay in progress payment is a situation where a certificate of payment is issued to the employer for payment and delay to payment to a contractor. This delay in payment it has a negative impact on the completion of the project, because it put contractors in big financial difficulties to honour their financial obligations such as payment of creditors and labour costs.

4.2.12 LACK OF REGULAR SITE VISIT

The SMEs contractors assign their employee senior employees on the site to take charge of the project and to ensure that the project is on track and the quality of work is according to the required standard. However some of them do not employ and assign experienced and technical staff. Although this SMEs contract owners know that they have not assigned experienced and technical to on the site, they do not visit site regularly to ascertain themselves with the progress of the project. They stay where they are, waiting to be briefed by the senior staff assigned to the project and wait for payment. A certificate of payment is issued after the engineer responsible for specific project on behalf of the employer confirm that the work done for which the certificate of payment is to be issued is at the required level and according to the standard. If the work build is not according the standard, the contractor is asked to rebuild the job at own cost. Sometimes the part of work, which was not done according to the standard, is big and it cost a lot of money to be rebuilt. The SMEs contractors who do no visit their sites to be able to detect the problem if any, while at early stage, ended up losing money, their collateral guarantee and key staff. In most cases this problem result a serious argument between the SME contractor of the concern project and the assigned senior employee to that project to a point where such employee decide quit from the project. The resignation of a senior employee from

project and the redoing of the work, which was done incorrectly, delays the completion of the project, and it has a negative impact on the growth and success on the company of the contractor concerned.

4.2.13 THE MANAGEMENT SKILLS AND SUPERVISION IN THE CONSTRUCTION INDUSTRY

The management skills and supervision are important for the success of the SMEs contractors in Ondangwa and Ongwediva. Some SMEs owner in the construction in the industry in Ondangwa and Ongwediva can hardly invest in management skills and supervision training. Mistakes committed by the senior staff on the site sometimes are as a result of lack of management skills and supervision. The lack of management skills and supervision compromises the quality of work, delay the completion of the project on time, to the cost of the contractor and it impact on the financial growth of the company.

4.2.14 FINANCING OF THE SMEs CONTRACTORS

The SME contractors are finding it difficult to get financing from the commercial banks due to poor credit worthiness, coupled with lack of collateral is what lead to the establishment of the DBN and later the SME Bank by the government, with aim to address the financing problem being experienced by the SMEs in the county.

Prior to the establishment of the SME bank, SMEs, Civil engineering and building contractors, use to approach the Development Bank of Namibia (DBN) for financing without any limitations. After the establishment of the SME bank, things have changed. DBN puts limitations of financing only SMEs contractors with annual turnover of not less than N\$10 million per Annam. All SMEs contractors with annual turnover of less than 10 Million are referred to the SME bank for financing.

The practice in the contraction industry, before the SME bank come into being was that, any SMEs irrespective of the industry were they operate, can to apply for financing from, DBN as long as that SME can prove documentary that is awarded a tender and its ability to pay back the money so borrowed. DBN has been to accepting collateral guarantee of the equipment bought with money borrowed from her, which is not the case with the SME bank.

The financing requirements of the SME bank are different from that of DBN, and are not favorable for SMEs contractors.

The SME contractors who intend to apply for financing from SME Bank to buy their construction equipment are required to provide security of different property equal to the amount borrowed. The SME contractors, who want to borrow money from SME BANK, are required to give a collateral guarantee equal to 50% of the amount to be financed. Therefore, most of the SMEs contractors who approached the SME bank for financing ended up losing tenders, due to lack of financing and collateral guarantee. SMEs contractors are only given fourteen (14) days to provide collateral guarantee, failing to do so, they are losing their tenders.

The new financing requirements of the SME bank and the threshold of N\$10 million annual turnover restriction by the DBN puts the SMEs into the position they have been before the establishment of these two financial institutions by the government.

This lack of financing of the SMEs construction companies has a serious implication on the growth and success of the SMEs in construction industry in Ondangwa and Ongwediva.

4.2.15 THE SMEs CONTRACTORS' INVESTMENT IN CONSRUCTION EQUIPMENT

Most of the SMEs contactors are not investing in construction equipment. Their argument is that it is difficult for them to invest in buying the construction equipment, because their works are depended on the on getting tender, and they are not sure if they can get next tender, after the project on hand is completed. Therefore, their opportunity cost is to hiring the construction equipment's although it comes at a high cost and high cost and reduces their profitability.

4.2.16 COMPETITION IN THE CONSTRUCTION INDUSTRY

There is no policy guideline, setting a cut of tender amount to be exclusive for SMEs tendering. The absence of this policy, it put the SMEs contractors into unfair competition for work with the large construction companies. Only few tenders of relatively small amount are sometimes said to be exclusively for SMEs contractors, but that is to the discrete of the project a consultant.

The competition for work in the construction industry is between the SMEs contractors, large contractors and Chinese construction companies. Unfair competition is causing the SMEs contractors to lose tenders and forcing them to quote far below the exact cost of the project. The SMEs contractors who quote below the project cost and get award a tender for the tendered amount can hardly complete the project as they abandoning it.

Once the project is abandoned, the contractor forfeit their collateral guarantee, which could be a house or a business property and put the contractor concerned in a bad position to get the next tender by being listed as a bad contractor. This unfair

completion is regarded by the SME contractors as one of the major problems that are impacting on their growth and success.

4.2.17 PERFORMANCE AND PAYMENT GUARANTEES

FIDIC allow the employer to give advance payment of 20% of the project cost as part of the preliminary and general budget. The SME contractors are required to provide a payment guarantee of 20% of the total project cost, and 10% for performance guarantee respectively. The advance payment is to be deducted from the subsequent payment certificate. Once the total amount is respect of 22% advance payment is paid up, the payment guarantee gets released. If all items relating to preliminary and general cost are set up, the contractors can claim 100% preliminary and general budget in the project cost. The payment of preliminary and general budget, which is covered under the payment guarantee, allow the contractors to pay the initial cost items of the project, including site establishment. Some SME contractors find it difficult to provide both the performance and the payment guarantee. In that case they end up losing the tender and without work as a result.

4.2.18 RELEASING OF THE PERFORMANCE GUARANTEE AND PAYMENT OUT OF RETENTION

The performance guarantee is a security given by the contractor to the employer to prove that the contractor is able to do the work and is committed to the project. The performance guarantee is 10% of the total project cost excluding the contingency budget. This guarantee remains in force until the project is completely finished and handed over to the employer.

Retention is amount held back by the employer is respect of any defect until the project is completed and handed over. The retention amount is normally 10% of the

total project cost excluding the amount budgeted for. The contingency budget is for a period of twelve (12) months. Depending on the client and the project consultant, the retention period might be less than 12 months, but the standard practice is 12 months. Technically, the amount held for retention could be seen as a profit by the contractor from the project, because it is released after all the expenses have been incurred. Some of the project consultants or (engineers or architects) are not registered with their professional bodies. Therefore, these conducts are contrary to the provision of FIDIC, the contractors will not be able to report.

In most cases the contractor completes the project and wants to hand it over, so that the performance guarantee can be released, but the project consultant is taking months to inspect the project and give the certificate of completion. The delay by the employer to release the performance guarantee prevents the contractor from tendering for another work, in case where the SME contractor concerned wants to use the performance guarantee which is held by the employer as security for the next tender. In some projects, the employer took longer than the prescribed retention period to pay out the retention money, this situation delays the growth of the business.

4.2.19 LACK OF QUALIFIED ENGINEERS AND ARCHITECTS IN NAMIBIA

Namibia has a serious shortage of qualified engineers and architects, some of the Namibian engineers and architects are not registered with their professional council therefore most of the engineers found in the Namibian market are of foreign nationals. The practice in the market is that, one engineer being a foreign national is given more than 10 projects country wide to supervise. Therefore they do not have enough time to

prepare a certificate of progress payment, certificate of completion, release a performance guarantee and the payment of the retention money when the project is completed. These state of affair put more pressure on the SME contractors to the extent that they are not able to honour their financial obligation and it put their companies under serious financial constraints, which affect their growth and success. Building contractors are the most affected by this situation.

4.3 DISCUSSION

4.3.1 TO DETERMINE THE GROWTH AND SUCCESS IN THE CONSTRUCTION INDUSTRY IN ONDANGWA AND ONGWEDIVA

The government is the biggest supplier of work to the SMEs in the construction industry. Therefore, SMEs, which fails to submit their return to the Receiver of Revenue and register their employees with SSC in terms of the Social Security Act, will not be able to get tenders/work from the government and as a result their growth and success will be negatively affected.

SMEs owners in the construction industry need to have a basic education and experience. This will enable them to understand government polies and regulations.

The non-compliance by the SMEs in the construction industry with the requirements by the Receiver of Revenue and SSC has a serious negative impact to the growth and success of the SME in the construction industry, as they are unable to complete the project on time or not at all. These SMEs also run the risk of losing experienced staff on the site due to financial constraints.

SMEs owners in the construction industry in Ondangwa and Ongwediva need to take site inspection seriously in order to familiarise themselves with the site and avoid under costing of the project.

The success and growth of the SMEs is dependent on the tenders awarded to them through tendering process and proper project management. The sources of work of the SMEs contractors are tenders awarded to them by the employer. The SMEs contractors understand the tender documents, but sometimes they under quote the project. Tenders awarded by employers are only beneficial to the SMEs Contractors when the costing is done properly. Most of the SMEs contractors submit their tender document with under quoted project rates due to lack of proper site inspection and being desperate for work.

Although the SMEs contractors are knowledgeable on how to complete a tender document and all the procedures involved, in most cases they fail to hand it in due to non-compliance with requirements by the receiver of revenue and the SSC, which limit their growth and success as they cannot get job.

Some SMEs building contractors employ inexperienced staff to perform key functions of the project on site. The purpose for doing this is to pay less on labour cost, with the aim to make more profit after completion of the project. These however come out expensive to the contractor at the end of the day due to substandard work.

In this case the contractor is ordered by the project consultant to rebuild what was not build according to the set standard and specifications at own cost.

The SME contractors, who want to borrow money from SME BANK, are required to give a collateral guarantee equal to 50% of the amount to be financed. Therefore, most of the SMEs contractors who approached the SME bank for financing ended up losing tenders, due to lack of financing and collateral guarantee. SMEs contractors are only given fourteen (14) days to provide collateral guarantee, failing to do so, they are losing their tenders and this affect the growth and success of the SMEs in the construction industry in Ondangwa and Ongwediva.

Most of the SMEs contactors are not investing in construction equipment. Their argument is that it is difficult for them to invest in construction equipment, because their companies are depended on the in obtaining tenders. Therefore, their opportunity cost is to hiring the construction equipment although it comes at a high price and it reduces their profitability. This affect the growth of their companies in terms of their balance sheet, which put the company at a bad position when it intends to apply for financing from a financial institution.

The SME contractors are required to provide a payment guarantee of 20% of the total project cost, and 10% for performance guarantee respectively. The advance payment is to be deducted from the subsequent payment certificate. Once the total amount is respect of 22% advance payment is paid up, the payment guarantee gets released. If all items relating to preliminary and general cost are set up, the contractors can claim 100% preliminary and general budget in the project cost. The payment of preliminary and general budget, which is covered under the payment guarantee, allow the contractors to pay the initial cost items of the project, including site establishment.

Some SME contractors find it difficult to provide both the performance and the payment guarantee and performance guarantees. In that case they end up losing the tender and without work as a result.

The delay by the employer to release the performance guarantee prevents the contractor to tender for another work, in case were the SME contractor concerned want to use the performance guarantee which is held by the employer as security for the next tender. In some project's, the employer took longer than the prescribed retention period to pay out the retention money, this situation delays the growth of the business.

Namibia has a serious shortage of qualified engineers and architects, some of the Namibian engineers and architects are not registered with their professional council therefore most of the engineers found in the Namibian market are of foreign nationals. The practice in the market is that, one engineer being a foreign national is given more than 10 projects country wide to supervise. Therefore they do not have enough time to prepare a certificate of progress payment, certificate of completion, release a performance guarantee and the payment of the retention money when the project is completed. This practice has a negative effect to the growth and success of the SMEs contractors in Ondangwa and Ongwediva.

4.3.2 TO ANALYSE THE FACTORS THAT INFLUENCE THE GROWTH AND SUCCESS OF SME'S IN THE CONSTRUCTION INDUSTRY IN ONDANGWA AND ONGWEDIVA

Most SMEs building contractors are unable to complete their work in accordance with project agreement. This situation is contributed factors such as:

- The Lack of experienced and technical staff
- Financial discipline
- Under costing of the project cost
- Delay in progress payment
- Regular site inspection

Some SMEs building contractors in Ondangwa and Ongwediva draw money from the business for their own use and buying things that have nothing to do with the project or recorded as company assets. Ultimately, they have no money to buy project materials, labour and other project related resources. The fact that they are the owners of their businesses, they are not able to distinguish between them as natural persons and the business as juristic persons. This practice put them in a position where they are unable to complete the project on time, abandoning the project, loosing their collateral guarantee and it impact negatively on the growth and success of the business.

Some SMEs in the construction industry in Ondangwa and Ongwediva have not employed qualified bookkeepers or financial accountants to reconcile their companies financial records because they do not see the need due to lack of understanding of the importance to employ a qualified financial officer, and unwilling to pay higher salaries for such services.

This is one of the reasons that their accounting books are not up to date, no good financial records and the VAT and tax are not paid to the receiver of revenue. These SMEs when asked by the receiver to produce their financial record, they are unable to do so, because they have not employed a qualified financial accountant or bookkeeper to reconcile the company financial books. Therefore they get penalised by the receiver of revenue, to the extent that they are banned from tendering and there are restrictions put on their company's bank account by the Ministry of Finance.

Some SMEs contractors abandoned their project and loose the collateral guarantee, which could a family house or a property given as collateral guarantee due to lack of proper project costing.

Some employers delay to do progress payment to the SMEs construction companies in Ondangwa and Ongwediva. These delay, put the construction companies in serious financial constraints and as a result, they are unable to honour their financial obligations. This situation forces them to approach the Financial Institution for temporary overdrafts, but they end up with an overdraft for an extended period and delay progress payment, which cost them a lot of money in bank charges. This delay has a negative impact on the growth and success of their businesses.

Although this SMEs contract owners know that they have not assigned experienced and technical staff on the site, they do not visit the site regularly to ascertain themselves with the progress of the project. They stay where they are, waiting to be briefed by the senior staff assigned to the project and wait for payment. A certificate of payment is issued after the engineer responsible for specific project on behalf of

the employer confirm that the work done for which the certificate of payment is to be issued is at the required level and according to the standard. If the work is not done according to the standard, the contractor is asked to rebuild the job at own cost. Sometimes the part of work, which was not done according to the standard, is big and it cost a lot of money to be rebuilt at own cost.

The lack of management skills and supervision compromises the quality of work, delay the completion of the project on time, at the cost of the contractor and that have an impact on the financial growth of the company.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS.

5.1 INTRODUCTION

This chapter presents a summary, conclusions and specific recommendations based on the findings and analysis of the study, which was carried out in Ondangwa and Ongwediva concerning the pertinent challenges, which affect the growth and success of the SMEs in the construction industry.

5.2 SUMMARY OF FINDINGS

The SMEs growth and success has been of great concern to the Namibian Government and relevant stakeholders. This study investigated and discussed the growth and success of the SMEs in the construction industry in Ondangwa and Ongwediva. The results show that SMEs in the construction industry are faced with many challenges, which affect their growth and success.

Although the government has policy guidelines to help and support the SMEs in all sectors, most of the SMEs in the construction industry are still struggling to grow and be successful due to challenges that affect them in the industry. The SME contractors cause some of those challenges themselves and some are due to lack of the relevant policies to help the SMEs against external threats that are affecting them.

The challenges that are caused by the SME contractors themselves are lack of managerial skill and training, lack of financial discipline, lack of experience and technical staff, lack of proper project costing, lack of regular site visit, non-

compliance with receiver of revenue, the SSC and lack of understanding FIDIC and inability to complete project work on time due to lack of financial discipline.

The challenge that are beyond their control are lack of proper financing, inability to provide the required performance and payment guarantees, delay in proper payments, lack of finance to buy construction equipment unfair competition in the industry, delay in releasing of the performance guarantee, delay in payment of retention, shortage of qualified Namibian engineers and architects, difficulty to get financing and collateral guarantee. The combinations of those challenges affect the growth and success of the SMEs in the construction industry.

These findings are consistent with the study conducted by the Ministry of Trade and Industry in 1997, has identified the factors hampering the success of the SMEs in the construction industry:

- The lack of managerial training
- The lack of market information
- The low level of education
- The inability to retain staff with relevant skills and training

A study conducted by Sexton (2009) in Malaysia has identified the following challenge that hampering the growth and success of the SMEs in the construction industry.

- The lack of management expertise, which restrict their ability to accept appropriate research and development
- The lack of resources for external information that result in limited information and awareness about new technical trends and opportunities.

The FIDIC document is not known by most of the SMEs building contractors. Due to the level of education of some building contractors, they are unable to read or understand fully the construction documents that re written in English. This is one of the reasons why most of the SMEs building contractors do not understand or are ware about the conditions of FIDIC and the white form.

5.3 RECOMMENDATIONS

In light of the findings, the following policy considerations are proposed:

- The eligibility criteria of commercial banks should be harmonized to enable more SMEs to access financing. It is further recommended that GRN should consider a policy that bore the credit risk for commercial bank loans to SMEs.
- Training and mentorship in financial and project management should be made a requirement subsequent to approval. Most of the SMEs fail to grow and succeed to lack of financial discipline and financial control in the business. Not having employed a financial accountant or a bookkeeper prevents the business owner from making informed financial business decision and account for correct income and expenditure. Therefore the employment of a financial accountant or bookkeeper should be made conditional to financing. It is not necessary that this person should be a fulltime employee of the company, but can be hired, a contract agreement to reconcile the books on a weekly or short basis to advise the SME owner on prudent financial decision and management as well as compliance with the receiver of revenue and SSC requirements.

- The government in consultation with NCCI, NIA and CIF to help to translate the conditions of FIDIC in all local languages and make them available at a cost, so that all SMEs owners can be able to read and understand the conditions of FIDIC. The NCCI and CIF organise regular trainings and workshop to educate the SME contractors on the importance of site inspection, rendering process and correct project costing's, and that be part of the Government policy on SMEs. The government has a policy compelling the employers and their project consultants, to comply with the timeline of FIDIC on inspection, issuing of payment certificate. The same policy should also compel the employer and the project consultants to release the performance guarantee retention as soon as it becomes due. The employer who fails to comply with those conditions to be given a heavy penalty on a daily basis. These penalties should apply to all employers including government.

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APPENDIX A

PARTICIPANT LETTER

An investigation study on the growth and success of Small and Medium Enterprises (SMEs) in the construction industry in Ondangwa and Ongwediva.

You are being invited to participate in a research study about the growth and success of Small and Medium Enterprises (SMEs) in the construction industry in Ondangwa and Ongwediva. The study is being conducted by Petrus Nevonga, A student from the Faculty of Management Sciences of the University of Namibia as part of a thesis.

There are no known risks if you decide to participate in this research study. There are no costs to you for participating in this study. The interview will take about approximately thirty (30) minutes of time to complete. The information collected may not benefit you directly, but the information learned in this study will provide more general benefits.

The interview is anonymous and no one will be able to identify you or your answers, and no one will know whether or not you participated in the study. Should the data be published, no individual information will be disclosed.

Your participation in the study is voluntary, I assure you that the information that you will provide will be treated in confidence and used solely for academic purposes only. You are free to decline to answer any particular question you do not wish to answer for any reason.

If you have any questions about the study, please contact Petrus Nevonga nevonga@mweb.com.na, phone No: 0811270138.

Yours Sincerely

Petrus. T Nevonga

APPENDIX B

QUESTIONNAIRE (INTERVIEW)

1. Name of Company _____
2. Location
(Town) _____
3. For how long have you worked at this company? _____
4. What is your position at the company? _____
5. Did your company receive any tenders this current financial year? (Yes/No)
Why?
6. Did your company follow the right tendering procedures? (Yes/No) why?
7. How much was the amount for the Tenders? _____
8. Did the company make any profit in the last financial year? (Yes/No) Why?
9. Did the company experience any challenges this financial year or the past
financial years? (Yes/No) Why?
10. Did the company successfully executed projects? (Yes/No) Why?
11. Did the company obtain a certificate of good standing from The Social
Security Commission? (Yes/No) Why?
12. Did the company submit their Tax Return to the Receiver of Revenue this
financial year or past financial years? (Yes/No) why?
13. Did the company register the employees with The Social Security
Commission) (Yes/No) Why?
14. Did the company executed site inspections during the tendering process?
(Yes/No) why?
15. Did the company consult the SMEs contractors of policy guidelines that
govern the civil engineering council and building contract works as regulated

- by the International Federation of Consulting Engineers (FIDIC)? (Yes/No) why?
16. Does the company have an understanding of the tender documents and proper costing of the projects? (Yes/No) why?
 17. Does the company complete project on time as per the project agreement? (Yes/No) why?
 18. Does the company have experienced staff and technical staff? (Yes/No) Why?
 19. Does the company exercise financial discipline in all their activities and sections? (Yes/No) Why?
 20. Did the company conclude all their projects successfully? (Yes/No) Why?
 21. Does the company have skilled and competent bookkeepers? (Yes/No) Why?
 22. Did the company visit the projects regularly to check on the quality of work and whether the project is still on tract? (Yes/No) Why?
 23. Does management exercise proper management and supervision skills? (Yes/No) why?
 24. Does the company experience any challenges in obtaining financing from commercial banks? (Yes/No) why?
 25. Does the company invest in construction Equipment's? (Yes/No) why?
 26. Does the company experience any competition when applying for tenders? (Yes/ No) why?
 27. Does the company find it difficult to provide performance and payment guarantee? (Yes/No) Why?
 28. In your view, do you see any growth in the construction industry in your Town? (Yes/No) Why?

29. In your view, do you see any successful SMEs in the construction industry in your Town? (Yes/No) Why?
30. In your view, are there any factors that influence the growth of the SMEs in the construction industry in your town? (Yes/No) Why?
31. In your view, are there any factors that influence the success of the SMEs in the construction industry in your Town? (Yes/No) Why?
32. Do you have any recommendation about the growth of SMEs in the construction industry in your town? (Yes/No) why?
33. Do you have any recommendation about the success of SMEs in the construction industry in your town? (Yes/No) why?