

Capacity Building In Preparation For Global Competition

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ABSTRACT

Globalisation is both a challenge and an opportunity to national construction industries of developing countries. The challenge is with regard to the inevitability of increased foreign competition, for which the local industries are not yet prepared for. On the other hand globalisation provides leverage for accelerated development and competitive performance of the national construction industries if and only if, positive interventionist measures are adopted.

Impediments to growth and competitive performance of our local Construction Industry (CI) has been a popular topic amongst CI players, which over the past few years has led to some very substantial decisions and actions towards enhancing growth of the industry. However, the general feeling is, the pace is still too slow and yet the threat so real.

In this paper, the author tries to go back to the issues and come out with a simple but objective proposal of what we should do as a nation to prepare ourselves for taking up the challenge and the opportunity.

1.0 INTRODUCTION

Capacity Building is a national issue! If we invest in educating our children; if we invest in our peoples health; if we invest in agricultural implements Why can't we do something to an industry which contributes over 50% of the National Gross Fixed Capital Formation (GFCF); An industry which consumes most of the resources we produced in other economic activities? If money is made through production and savings, why are we so willing to give away the little we have? **Putting in place a National strategy** for capturing local and foreign monies turned-over in the construction industry may be the main stay in our efforts to develop our industry and our nation at large. We have put in place a policy to guide the development of the construction industry, we have a procurement Act which, with slight improvement, can facilitate the growth process, and we have developed a number of institutions (both private and public) and several regulatory bodies to direct and facilitate the process. We have witnessed in the past few years a growing national drive for the growth of the CI that in turn gave birth to most of the initiatives mentioned above. The big question is whether or not we will surely reach there in good time given the opportunity and challenge posed by globalisation. Since we are discussing our chances in the advent of global playing arena, let me start by briefly looking at global business trends.

2.0 GLOBAL/REGIONAL TRENDS

2.1 Strategic Alliances

As the world becomes smaller as a result of modern technology, private sector businesses grow fast in way of strategic alliances, cross border acquisitions and stake purchases across national borders. Technology-based strategies, together with corporate practices that combine finance

with technical services, are shaping the conduct of international business in this sector. Most foreign contractors work in consortiums not because of small size but they form joint ventures *to enhance their competitiveness and their chances of winning contracts.*

2.2 Specialization

“A new trend has emerged over the last decades where firms have concentrated on their core competencies and have externalised a wide range of functions that were formerly carried out in-house. The old pattern of large integrated business organizations has given way to networks of collaborating companies and chains of buyers and suppliers”.

This makes the collaborating partners become more competitive in terms of cost, time and quality. It is arguable that in a market as small as ours, specialization is limited to a few areas that can sustainably grow with even the few jobs available. This is very true and so the issue here is *a joint venture of different specialities with the purpose of winning more jobs.*

2.3 Localization of Services

International companies, especially from the USA, Europe, Asia and even countries like South Africa have given increased attention to construction management services and less to construction implementation services, which are either sub-contracted to other foreign firms or provided in cooperation with local companies. The new US Embassy buildings in Dar and Nairobi were built by a US based construction firm, but in fact the American firm provided construction management services and sub contracted most of the work to a ‘local’ construction firm (based in Kenya) and to US based sub contractors for specialised tasks; PPF Tower, Umoja House (EU), Barclays Bank, construction works going on in Gold mines are just a few examples among many. Local companies need to improve their marketing prowess and capacity to take advantage of such opportunities. If local capacities allow, *the trend is the increasing recognition among International firms of the advantages of localization, which enables them to do business in foreign markets through subsidiaries or joint ventures.* This is already happening in consultancy contracts and we should not discount it to happen in the contracting industry in the near future.

2.4 Information and Communication Technology (ICT)

The market place will continue to get more and more sophisticated with more and more use of ICT because of the vast amounts of information needed to traverse the world in terms of information on new projects, procurement of projects and management.

Bid preparation using computer based tools is quicker and more accurate and hence more competitive; and computer based management tools such as Microsoft Project increases tremendously the management efficiency in terms of planning and controlling of different project processes.

The digital divide, if unchecked, will result into further marginalization of the already marginalized developing world. The Tanzanian CI must continue building technological capacity in order to make sure we enhance our chances to participate in global economy in the future.

2.5 Changes in Project Procurement Practises

The industry will see in the coming years more emphasis to practises which ensure more efficiency in terms of quality and cost of products with less control of the service providers by the client and his agents. Clients will move towards more “turn-key” projects! That means employing consortiums to accomplish their project goals, and ensure good quality, optimal cost

and shorter time of delivery; the on going "Special Roads Project, Mtwara – Mwanza" is a good local example. Since implementation agencies will continue to be smaller and smaller, maintenance activities, be it for buildings, other public structures or roads will be given out for long term maintenance contracts. **Maintenance contracting** is very fast becoming the household practice in developed countries, e.g. in the USA some contracting firms are already having 30 years long road maintenance contracts. It is proving to be more cost effective to the client as he can shift quite a considerable amount of risk to the contractor. The growing practice of giving out concessions for public facilities in form of Build Operate and Transfer (BOT) schemes, BOOT and the like is another trend worth following up. The concessionaire will practically own the scheme for a period of thirty years or even more. As a private business entity expecting to get return on the investment he will most likely adopt procurement practises which will ensure he gets value for money and this is not necessarily achieved through what is defined as fair competition in the current practices but competitiveness in real terms! The requirements will base more on financial credibility, composition of the firm in terms of share holding and firms' experience. TANROADS has recently advertised tenders for Urban Pedestrian Bridges across major roads to be built by BOT. Whether the project will attract interest from the private sector or not, the fact is they have started moving towards the direction.

In all these circumstances the strength of our future contractors will be in their ability to network with each other internally and internationally. *We can no longer count in our traditional small, family based practises to face the challenge ahead of us. This is not a matter of engineering or politics; it is a matter of fact.*

3.0 MAIN ISSUES DISCUSSED

It is not the intention of this paper to discuss problems but rather to propose a few practical steps which can be taken to enhance the capacity of the local CI. However, I will mention the major blocks for the capacity building process with reference to the draft Corporate Strategic Plan of CRB, (2004-2008).

3.1 Industry Policies

In general terms, the environment for our local industry is very conducive for growth, given the legislation of various laws and regulations, the formation of different enabling institutions both public and private, and several other initiatives taken by different players. To mention a few, we have a growth supportive policy (**CIP**); We have in place a **procurement policy** which aims at enhancing the local industry and which the Government in cooperation with stakeholders in the public and private sectors are determined to amend to ensure it serves its purpose; We have **regulators** who see the need to improve their establishment to be more business and growth supportive; and the Government is listening and willing to create an even better environment in terms of business supporting policies in terms of **licensing and tax** requirements. Since the will is there and the environment conducive, *the major gap that exists is to take advantage of all these positive interventions to bring about the desired growth.*

3.2 Financial Issues

Financial capacity of our local contractors is definitely very low. As a business, construction is a high capital undertaking. The history of our private contracting industry does not suggest existence of players with big capital reserves. *If we have a dream for growth, there must be a way to facilitate growth of our contractors' capital holding.*

3.3 Capital Investment

Construction equipment and plants are expensive but also unavoidable prerequisite for sustainable growth. Complaints do not bring equipments! If our contractors area as small as we know, they will always work and remit all profits to equipment owners, who take minimum contractual risk but the biggest share of the profits. The similarity of problems resulting from low financial capacity and low equipment holding has one common answer; avail a reasonable amount of works to smaller, medium or big local contractors, coupled with an arrangement that will ensure value for the money paid by clients and slowly the vicious cycle will fall apart.

3.4 Work Opportunities

It is very common to make big noise about donors putting unreasonable conditionality either to safe guard their interests, be it making sure they get value for money or just making sure the money go back to them. What have we done with projects that are funded through our hard earned local funds? Have we made any reasonable efforts to make sure we have a reasonable share of projects created by a Government Parastatal, like the famous Social Security Funds? The Road Funds or Development projects partly or fully funded by the Government like the famous "Special Roads Project" of the Ministry of Works? It is unreasonable to simply say, we do not have capacity, while we supply over 98% of all labour engaged in construction activities in our country. We should build on our strengths to take advantage of the opportunities available. "Mtaji wa maskini ni nguvu zake".

3.5 Quality

Speaking during a discourse on enhancing local capacity in engineering consultancy, Prof. Awadhi Mawenya, Director, Design Partnership, told his listeners that "the only way forward in the quest to enhance the capacity of local consulting engineers and engineering consulting firms is for the key players to embrace professionalism and to meet global standards of service and products". This is not different for contractors. Those of us who show unprofessional tendencies are simple opportunists who should be purged from our industry so that they can concentrate on other businesses they can manage better. Since capacity building is not only a serious business but also a long term commitment, total quality will encompass quality education, professional training, working environment, quality products for enhancing Competence and Competitiveness.

4.0 CAN WE LEARN FROM OTHERS ?

Time was not enough to do a thorough research on the secret of success stories from other countries. All the same it is my sincere belief that we can have good lessons to learn from other economies how they managed to build their local capacities.

Ghana in 2001 had only two foreign firms working in their country because local contractors were more competitive during procurement than their foreign counterparts.

South Korea, Singapore, Indonesia and other developing countries have succeeded where others have failed.

China has now distinguished themselves as Construction Giants with several companies appearing in the list of 100 largest construction firms in the world. The issue here is who builds the capacity of all these companies and for whose benefit?

Apparently, it is not only China which promotes Government owned or partially owned companies, we know a number of European companies which are not fully private or which for many years were partly owned by their governments. What is sinful with that if national targets are realised?

I am just trying to provoke thoughts because much have been said and written!! What is missing is radical action for the realisation of our dreams.

5.0 WE NEED A TEAM AND A LEADER

It is a fact that our small (local) contractors do not want to come to their senses and join up to form larger companies to enhance their chances of winning jobs (I am a believer and advocate of this school of thought). What is not said is the fact that our industry is so fragmented to an extent that the former allegation is just like a scapegoat for a larger and more critical fact. Who is leading the industry? Who gives us the sense of direction, purpose and our different roles? Who is coordinating our efforts? Who takes audit of our achievements and failures for the purpose of rectifying our mistakes for a better future? Can all stakeholders sit together and chart out a strategy to avoid pull-push situation? Whatever the answer to those questions my conviction is, if we want to enhance the capacity of our industry, we have to work as a team and so we need a leader.

6.0 RECOMMENDATIONS

I am required by what was given to me as terms of reference, to make practical recommendations and to define roles of different players.

Before I start recommending anything I should caution that what ever is recommended hereunder, we should not make mistakes of re-inventing the wheel or even destroying whatever we have managed to build so far. We should try as best as possible to build on our previous rich experience and existing framework. That notwithstanding, stakeholders should be bold enough to remove any obstacles without hesitation or guarding self interests.

1. Policies and Parliamentary Acts which have already been earmarked for amendments should be expeditiously amended after review of proposals by stakeholders.
 - Contractors' Registration Act No 17, 1997 – CRB
 - National Procurement Act No 3, 2001 – CTB
 - Operationalisation of the Construction Industry Policy – NCC
 - Formation of CI Lisencing and Tax Review Committee – ACET/TACECA/CATA (Workshop to decide leader who will mobilize other CI stakeholders)
2. The Vision of the Industry should be to have in future a Construction Industry Board (CIB) which will be a one stop station from which the industry can get direction and coordination. It is not easy to propose a structure or any detail for the time being but the MoW should take the lead.
3. There have been some very successful training programmes carried out by CRB/NCC/Donor funded Programmes which can be emulated; If a steering committee can be formed to manage a programme like, for example, the Consultants and Contractors Involvement Component (CCIC) of the Road Sector Support Programme

(RSSP) funded by The Swiss Agency for Development and Cooperation (SDC – Classroom Training) and TANROADS (Through road funds for the physical works). The said training was managed by the beneficiaries with the assistance of an advisor, carried out by reputable training provider and overseen by a steering committee comprising the beneficiaries (Associations), Financiers and the advisors. In one year over one billion Tshs worth of work was carried out by the trained firms with over 95% success in terms of quality and time. The project is going on at a smaller scale but can be revived for national interest. This particular recommendation aims at increasing opportunity for local players but at the same time use the opportunity for capacity building. *It calls for a radical decision.*

4. The issue of construction equipments needs a national outlook. To have enough, good condition equipments mean national capacity in times of need. CRB should look into the possibility of investing in equipment in partnership with private contractors, just as a facilitator in the same way they have come up with the bonding arrangement, or in the same way they invest in other ventures. TACECA formed a business wing called Tanzania Leasing Company Ltd. with open shareholding to all interested members and I understand they are working hard to try and procure some equipment with a foreign loan. It can be a good entry point.
5. Private Sector institutions in the industry should chart out a way to see how they can unify their strengths and mobilize better their members. Specifically contractor associations, e.g. CATA, TACECA, etc. should come together and resolve their differences before it is too late. Unity is always strength. With that point they should always bear in mind that Government institution have a role to facilitate; the role of developing themselves lies in their own hands. If we do not wake up! It will not stop the sun rising from the east; we will one day be out of business.

7.0 CONCLUSION

Capacity building is a national issue! I want to conclude by commending the Contractors Registration Board for a simple, easy to understand, clearly elaborated Corporate Strategic Plan for the period up to year 2008. The plan covers all important areas and addresses the real issues. Set targets are realistic though some of them can easily be generalised during evaluation. I wish they could add a few specific measurable targets, to be as indicators for their achievement in each key result area. As an example for key result area 3, Use of Local Contractors, "Market share value of local contractors increased to at least 70%".

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