

## **Capacity Building in Preparation for Globalisation Competition**

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### **ABSTRACT**

Contractors like anybody else be individual, government, institutions or business firms are bound to endure the effects of globalization whether positively or negatively.

For developing countries only the negative side has been given much attention than the positive side due to the weak base arising from underdevelopment. Globalisation is therefore seen as threat rather than an opportunity.

This paper seeks to highlight on some of the advantages of globalization and suggests what initiatives should be made and by who to enable contractors to compete effectively and exploit the opportunities offered by globalisation

### **1.0 INTRODUCTION**

Globalization in simple terms is free market access by all irrespective of their location the globe. It is based on the global village concept that what happens in one place should happen in the other part of the world without material deviation when it comes to access to markets

Globalization aims at removing trade barriers among nations with the view of giving access to markets by all traders on equal opportunity basis. It is result of the agreement made by the members Countries of the World Trade Organisation (WTO) through various agreements and protocols to which Tanzania is signatory. Under these agreements each member commits herself to abide to the agreements, and WTO administers them.

Globalization has a strong support and hence great push by the industrialized countries trying to access markets mainly in developing countries. They are the main force behind the concept.

The intention is to have all trade barriers be removed by the year 2012. It is assumed that by this time all countries will be ready to compete in a global market on the same footing. The contracting community therefore has to be ready as well when the time comes.

### **2.0 CURRENT SITUATION**

The Construction Industry is a service industry. For the same reason Construction business is trading in services. Under globalization protocols regulation of construction

trade fall under the General Agreement on Trade in Services (GATS) and is classified under **Construction and Professional Services category**.

Like any other business in the country, contracting business suffers the effects of underdevelopment. If one looks in any aspect it will be found to be undeveloped. With a quick look into the contracting business one sees that:

- The majority of local contractors are small, with 90% in class VII-V
- Production by local contractors in terms of value is 3%
- Contractors have neither adequate equipment nor reliable place to hire them
- Contractors have limited financial resources and access to financial support
- Technical know-how and managerial skills are not adequate
- Quality is compromised in many aspects
- The contractors lack cohesiveness
- Unfavourable legislations
- The government support is not adequate and,

Many more unfavorable conditions.

The assumption behind the global village is that every nation will have the capacity to offer what the world market demands.

What we see here is not a conducive environment for one to be able to participate effectively in the globalised market. Efforts therefore have to be made to enable contractors to compete in a liberalized market on equal footing.

### **3.0 WHAT DOES GLOBALISATION OFFER ?**

Globalization and liberalization of trade like any other **process** has both advantages and disadvantages.

In principal the liberalization of trade is intended to benefit all nations by creating an environment where everybody can compete in providing products and services on equal grounds. This has differing advantages and disadvantages to each country depending on whether it is least developed (LDC) or developed country.

For service providers in a least developed country globalization has the following advantages:

#### **1) Access to external markets**

With trade barriers removed it is possible for one to export goods and services to other countries. To date very little export of construction services is made by local contractors. Even for the construction services exported the data is not available.

## **2) Transfer of technology**

The foreign firms coming from developed into the LDCs usually have a more technically developed technology in terms of equipment and methods. These are introduced in the local market to the advantage of the host country.

## **3) Increased job opportunity**

As the economic activities increase due to donor and foreign direct investments, more job opportunities are created for service providers.

## **4) Recognition of the private sector as drivers of the economy**

As the markets are liberalised governments cease to involve themselves in business undertakings. The private sector becomes the major role player and hence more opportunities are created for the private firms.

The disadvantages which globalization brings about are the following:

### **(a) Reduces protection of domestic service providers**

Despite the increased job opportunities as a result of the growing economy, globalization threatens to take away these opportunities by creating competition with multinational providers of the same services in this case multinational contractors.

### **(b) Capital Flight**

The profits realized after provision of services are not re-invested in the economy in the same proportion as would have been if the locals provided the services.

### **(c) Standards not easily achievable in LDCs**

Setting of standards that presume the existence of high level technology than there actually is available hence eliminating participation of the domestic service providers. Though best for consumers some of these standards are set without due regard to the local environment

## **4.0 CHALLENGES OF GLOBALISATION TO CONTRACTORS IN TANZANIA**

Contractors in Tanzania like many in the least developed countries take a small share of construction business as compared to foreign contractors. While 97% of all contractors are local, their market share in monetary terms is only 3% as against 97% share of the market to the market share of 97% taken by the foreign companies.

The contractor faces a number of challenges in order to reverse this situation.

These include:

**i) Lack of job opportunities**

For a contracting firm to grow and develop competence it needs to be engaged in construction most of the time. On average 30-40% of registered contractors goes without a single job in a year. Table 1 gives the picture on how contractors in various types of construction business fared between 1999 and 2001.

**Table 1: Proportion of Contractors without work for the period of 1999-2001**

Year	Percentage of Contractors Without work					
	Building	Civil	Electrical	Mechanical	Specialist	Overall
1999	34.1	35.1	37.1	33.0	7.7	20.9
2000	35.2	29.0	44.4	Na	9.1	34.9
2001	35.3	29.8	34.8	Na	16.7	32.9

Source: CRB Annual Workshop Proceedings - 2002

**ii) Lack of adequate finance and financial support**

Construction unlike other professional services requires substantial capital investments. In the era of globalization, labour intensive methods will not play a big roll due to their low output nature and hence time wastage. Construction will be dominated by capital-intensive methods, which require adequate financing.

Most of the Contractor do not have adequate finance and do not have access to financial credits. Competing with well financed companies and elaborate credit supports from their countries, is an uphill task.

**iii) Equipment**

Most of the contractors have basic equipment only, which invariably are not adequate to carry out most of the projects. At the same time there no reliable leasing companies where one can hire the equipment. Equipments have therefore turned out to be source of loss instead of profit.

**iv) Professional competency**

Construction like any other business has attracted investment from construction professionals and other members of the society who happen to have capital and are looking for investment opportunities. At the top most level, while professionals tend to lack entrepreneurship, the other investors lack project management techniques. For the construction firm to be successful both entrepreneurship and project management are essential. At the technical level, competent staff has to be employed in order to execute the projects as required but most of the contractors do not have the means to employ and retain them.

**v) Weak and non-facilitative policies**

Despite significant contributions to the economy, the construction industry has not been accorded the priority it deserves. Between 1999 and 2000 the construction industry to the GDP averaged at 4.6 and its contribution to the capital formation during the period of 1988 to 1997 was 57%. This is a significant contribution when compared to sectors such as manufacturing which enjoy a full support of the government.

Tanzania has remained without a national agenda for improving the construction industry especially development of local contracting capacity.

**vi) Poor or unfavourable tax regime**

The tax regime is not in favour of the construction industry in general. Contractors have been left out in most of the tax incentives given to other sectors of the economy. This is mainly because policy makers have failed to realize the contribution of the sector to the economy. A host of unfavourable taxes including structured business licensing has been imposed on contractors.

**vii) Inefficient and non-transparent procurement systems**

In the process of carrying out the Public Procurement Sector Reform, the Government in 2001 enacted the Public Procurement Act 2001 to regulate procurement of goods and services for the government and public institutions. By replacing a vacuum, the law has slightly improved the procurement system.

The unfortunate side of the law and its corresponding regulations is that it is almost a replica of the procurement rules for the projects financed by the World Bank and other Donors which do not take into account the local conditions and specific national objectives.

The act has not only proved to be ineffective but also has made it very difficult for the local contractors to participate in the tendering processes effectively.

Procurement is not transparent enough at all levels thus leading to malpractices

#### **viii) Marketing Techniques**

As a tradition contractors have not bothered to market their services. The tendency has been to participate in the bidding process and once one loses no further efforts are made to capture the lost market.

In a liberalized market it is necessary to market aggressively the services provided by the firm in order to capture and retain the market. This needs for one to acquire the marketing techniques.

#### **ix) Advocacy**

It is expected that in the liberalized market rules will be made and have to be adhered to. These may be favorable or unfavorable to the local contracting community. The contracting community therefore needs a strong forum to take care of their interests. Such forum is the contractors association.

### **5.0 THE WAY FORWARD**

To get the market share in the liberalized market one has to be prepared. We have seen that there a host of problems and challenges that a the contracting community faces and which have to be solved if we are to participate on equal footing in a liberalized market.

The initiatives to be made in order to build the necessary capacity can be divided into three categories

- Measures to be undertaken by Contractors
- Measures to be undertaken by the Contractors Association
- Measures to be undertaken by the Government

#### **5.1 Measures to be undertaken by Contractors**

In a liberalised trade the business will be characterized by competition between domestic and international companies. The contractors have to be ready to compete and win or else they will be forced out of the market. The way out is to address the challenges and find solutions to them.

The following has to be done by contractors themselves:

**i. Improve quality of works and methods**

Contractors have to improve quality of works and methods to be able to compete in the globalised market. Achievement or even attempting to achieve international quality standards such as **ISO 9000 (Quality Management Systems) and 14000 (Environmental Management Systems)** series will lead to improved quality of works and methods.

**ii. Manpower Competence**

Contracting unlike trading in goods requires professional competence at all levels. Company owners need to be competent in corporate governance and the technical personnel need to have to be technically competent as well. Contractors should employ, train and retain technically competent staff.

**iii. Improve finance and financial credit positions**

Most of the construction firms are under capitalized. Despite this, contractors have a tendency of investing in other ventures the meagre profits they earn instead of reinvesting them in the construction business. Reinvesting in the construction business will improve the firm's financial position.

To be financially credit worth contractors should also maintain a strict financial management. This includes keeping proper financial books of account and proper utilization of funds earned or borrowed.

**iv. Improve Equipment and Plant Capacity**

As mentioned earlier, most of the contractors are small, and have basic equipment only. It is not possible for a contractor to have all the equipment needed for every project. However, a contractor has to have a sizable plant and equipment in order to be competitive. 100% hiring on a project erodes the anticipated profit significantly leading to declining contracting capacity. Contractors should have a plant acquisition plan as part of corporate development plans and should implement it.

**v. Market your company**

Contractors have to market their companies in order to increase the chances of securing jobs. Unlike marketing of products which the customer can inspect before buying, what you sell is a promise. A promise to deliver the project on time and cost effectively. Instead of marketing a product the contractor markets the firm. The contracting firms therefore have to promote their capabilities, develop markets and retain them.

#### **vi. Be export ready and export services**

To export contracting services one does not require to be a very big contractor. What one needs is to know what is required in the export market. Most of the countries in the Great Lakes region would welcome services of most of the Tanzanian contractors. Contractors must be export ready by creating credibility of the companies.

#### **vii. Ethics and fair competition**

Construction industry is currently plagued with unethical behaviour to which contractors are a party. This includes corruption induced or un-induced, poor quality jobs, poor project deliveries etc. Unfair competition is also rampant, especially price under cutting, which is threatening to throw most of the construction companies out of business.

Under such conditions companies are not working on building their capacity but looking for short cuts. In a global market where the quality of service is more paramount than price, such firms are bound to fail. We should there avoid un-ethical behaviour and concentrate on building company credibility.

#### **viii. Form Strategic Alliances**

One way of building capacity and increasing possibility of getting a bigger market share is through strategic alliances. These may be joint venture between local contractors or between local and foreign contractors or partnership.

#### **ix. Join Associations**

One of the challenges we have seen is advocacy. As individual contracting firms it is difficult to survive the winds of globalization.

Contractors therefore need a forum through which they can voice their views to the government and other stakeholders. A strong association is the one with sizable active membership. So contractors should join and support the Association so as to make it effective for their own benefit.

### **5.2 Measures to be Undertaken by Contractors Association**

In assisting contractors to brace themselves for competing in a liberalized market the Contractors Association has to do the following:

- a. Mobilise all contractors to join the Association so as to give it the necessary strength.



- b. Improve the business environment for contractors by reviewing laws and regulations affecting the construction business and seek for their amendment or scrapping, including the review procurement procedures and conditions of contracts by the government and its institutions, and other clients.
- c. Assist members in mobilizing resources that is, finance and equipment, including getting the government and other institutions support.
- d. Assist contractors in improving quality
- e. Establish global profile for national contracting services by publicizing the industry strength, establishing contractors capabilities database and promoting the construction business.
- f. Establish the code of conduct and sensitize contractors on matters business ethics and corruption, and assist the Contractors Registration Board in enforcing the Registration Act.
- g. Issue credibility guarantees to assist contractors win customers confidence.
- h. Seek for the government's implementation of the preferential treatment to local contractors with the intention of domestic capacity building allowed under WTO agreements for developing countries.
- i. Collect and disseminate information on job opportunities available in the local and external markets including possibilities of forming alliances.
- j. Seek for the establishment of the construction levy for the development of construction business through the Association.
- k. Make alliances with local and international service Associations

### **5.3 Measures to be Undertaken by the Government**

The government and its organs such as the Contractors Registration board have an important role to play in preparing the contracting community to compete in the liberalized market. The role of the Contractors Registration Board as a body charged with the development and regulation of the contracting business is more specific.

## **A) Contractors Registration Board**

The Board has drawn a very comprehensive Five Year Strategic development Plan which if implemented will cover most of what the board has to do in assisting the contractors build capacity ready for competing in the liberalized market. The board should as far as possible implement this plan. However some of the few areas need a specific attention:

### **i. Registration Services**

In enforcing the new by laws which requires the Board to register Class I foreign contractors only, the Board should make it mandatory for the procurement agencies to include the minimum qualification for registration of the foreign contractors in the qualification of contractors bidding for their projects.

### **ii. Regulation – Enforcement of the Act and Bylaws**

Defaulters to the Registration Act now include contractors, government, institution, and private developers. The board should carry out an awareness campaign for the clients and contractors including the government and apply the remedies as per the law where appropriate.

### **iii. Development of Contractors**

The Board has elaborate contractors capacity building initiatives such as training, contractors assistance fund. These should be improved and expanded to cover all areas for which the contractors are considered to be weak.

Availability of equipment is the most deficient area where the Board has to assist contractors. This will be possible by supporting the Association in the negotiation with the government and donor in the formation of a special fund for acquisition of equipment.

### **iv. Promotion of Contracting Services**

The board in collaboration with the association should promote the local construction capabilities both locally and internationally.

## **B) Government**

The government has committed itself towards building contractors capacity in it recently released the Construction Industry policy 2003. Among the many objectives of the policy the most urgent in preparation for effective competition in the globalization era are the following:

### **i. Capacity and Performance Improvement of Local Construction Enterprises**

The government has to improve capacity and competitiveness of the local contractors to enable them undertake most of the works by 2012 through:

- Supporting the establishment of financial facilities for the construction sector enterprises to access working capital in terms of credits, bonds, guaranties, etc
- Put in place mechanism of ensuring that both local and donor procurement policies and systems provide a comprehensive framework for the fostering the local construction business.
- Ensuring that public funded projects are either executed by local contractors or involve partnership with local contractors.

### **ii. Availability of Construction Equipment**

The government should immediately implement among its policy direction for this particular objective:

1. Reduce cost of construction equipment through financial rebates such as tax relief
2. Assist contractors to acquire equipment and plant advances, hire purchase and other forms of credit arrangements.

### **iii. Compliance with International Trade Agreements**

Most of the trade agreements such as the General Agreement on Trade in services (GATS), the World Trade Organization WTO and other protocols have provisions beneficial to the development of the local contracting business. In order to reap these benefits the government has to adopt policies and strategies consistent with trade agreements.

In preparing contractors to participate effectively the government has to:

- Ensure full advantage of special and preferential treatment provided under GATS and other trade protocols are taken for the purpose of developing local construction capacity.
- Make mandatory the local contractors participation requirement in all construction projects.

#### **iv. Supporting the Contractors Association**

The Contractors Association as trade association has a key roll to play in the development of the construction industry. The government has to support the Associations as part of strengthening the institutional framework, which will in-turn become partners in developing the local contracting capacity and in the regional and international integration.

#### **v. Creating a Favourable Tax Regime**

A supportive taxation and licensing system unlike the existing one is necessary for the local contractors capacity building. There is therefore a need for the government to review the existing tax laws with aim of creating removing internal trade barriers and providing incentives for domestic contracting capacity development

## **6.0 CONCLUDING REMARKS**

Globalisation is mostly perceived as threat and not an opportunity simply because of our weak position when it comes to competing with multinationals. These multinational will export their services successful if the domestic market cannot offer similar services as the multinationals. The opportunities created by globalisation however, can be exploited by domestic firms if the have built sufficient capacity not necessarily to the level of multinationals.

It is also not the best approach to wait and fight for the local market share with the foreign companies. A better approach is to expand the market through exporting our services and hence fight in a bigger market. We can start by exporting our services to the neighbouring countries, especially Great Lakes and SADAC countries.

The initiatives discussed here if are implemented at the Tanzanian contractor will be in a position to compete effectively in the globalization era.

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