Challenges Facing The Construction Industry: A Botswana Perspective

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Abstract

The construction industry in Botswana has had a phenomenal growth, particularly n the last two decades. As a consequence, it has contributed significantly to the socio-economic development of Botswana. However, it has also experienced some problems and still faces numerous challenges, among them, human resource development, capacity development, and lack of competitiveness for citizen firms. The government continues to be its major client, implying that its workload depends mainly on government policies and direction. The supply side continues to be dominated by foreign firms with local firms not being able to compete at the same level, particularly for major projects.

This paper highlights a few challenges facing the industry and also makes suggestions to the way forward in order to have a sustainable industry for the long-term benefit of all stakeholders.

Keywords: *Construction industry, citizen participation, GDP, Government intervention.*

INTRODUCTION

Several studies have identified the Construction Industry (CI) as one of the main engines of growth in any economy. It provides the infrastructure required for other sectors of the economy to flourish, provides housing as the basic human need and is instrumental in providing national communications network. The CI also provides significant employment opportunities at non-skilled and skilled levels. When it comes to the nation's gross fixed capital formation, the CI provides over 50% of the national long-term assets.

In Botswana, CI's contribution has been significant given the history of the nation since its independence, in 1966. Unlike many developing countries, which inherited some form of infrastructure from the colonial governments, it is modest to say that Botswana received next to nothing. The colonial masters left only a few administration buildings and 5km of tarred road for the entire nation! Botswana had to start from scratch. Throughout the early part of its nationhood, the activity of Botswana remained cattle farming but thanks to the gift of God, the story changed quite dramatically since 1971 when diamond production started.

The production of diamonds gave new breath to the economy of Botswana and engineered the growth of the CI. In 1999, the CI contributed 5.9% of Gross Domestic Product (GDP) and the value added activity, in current prices, stood at PI 382 million (approximately US$ 260 million). Employment in the sector was approximately 29 5000 people, representing 20% of the total employment in the private and parastatal sectors (excluding the Government) (CSO), 2000).

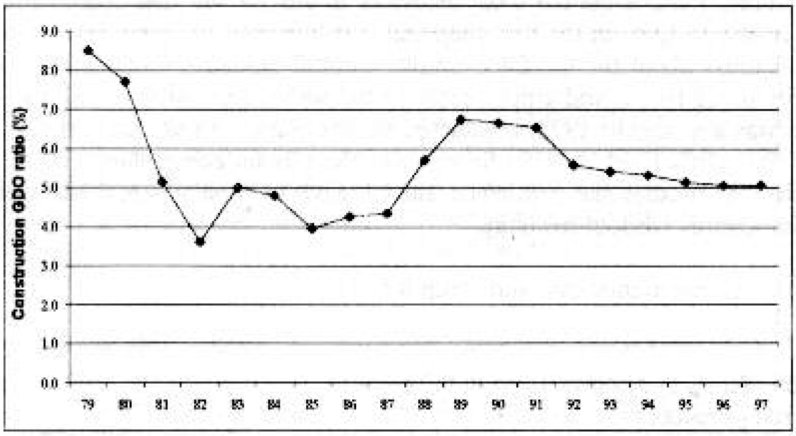
With that background, I would like to mention a few important events, which have not only had a permanent mark on the CI in Botswana, but have also affected the industry in many ways.

Milestones in Botswana's CI

There are four significant events that I have picked to provide a profile of the CI in Botswana, namely, the drought, the construction boom, the Botswana Housing Corporation (BHC) saga and the world recession (Ssegawa, 1999). The events and their effects are discussed below.

The drought of 1982-87

In the period from 1982 to 1987, Botswana experienced a very severe drought, which affected not only the traditional agricultural sector but also several other sectors of the economy. The CI, in particular, was slapped with a general ban on all forms of construction activity because of its need for water in the production process. As a consequence, the CI's average GDP ratio fell from an average of 10,3% in the previous decade to 5,1% in the 1980's as shown in Figure 1. The drought had a significant effect on the supply of housing, office and industrial space, public and social facilities. By the time it ended, the economy was starved of outputs from the CI leaving a huge demand in housing and office space. The drought also slowed down the industry by reducing its capacity and entrepreneurship as investors looked to other sectors of the economy.



Source: Ssegawa, BJT

Fig. 1: GDP ration of CI between 1979-97

The boom of 1987 – 92

In 1987, the drought was officially over and both the private and public sectors embarked on a massive construction activity, which created, perhaps the biggest boom the country has ever seen. New roads, schools, hospitals, office blocks, factory shells, clinics, water and sewage works, to mention a few, were either built or expanded. New housing estates mushroomed in many urban centres of Botswana. It is important to mention the role of the BHC in providing housing for the urban centres. For over this period the corporation advertised and offered many tenders, worth millions of Pula to various consulting and construction firms for the many housing estates it built in Gaborone and other towns. The CI's ration of GDP reached a high of 6.9% as shown in figure 1. The construction industry was overstretched beyond its capacity and perhaps this explains the influx of many foreign firms and labour during this period. Indeed, it was at this time that many foreign owned companies appeared on the scene.

The BHC scandal

At the height of the construction boom in 1992, the CI hit another snag in the form of allegations of corruption and fraudulent dealings. The charges were levelled against BHC, a significant player in the industry, after the death of its General Manager. Following these allegations, many construction projects were disrupted or cancelled. The housing sector, particularly the output of BHC, formed a very large percentage of the total CI activity and therefore the disruption in the sub-sector sent shockwaves in the industry. The extent of corruption in the industry has never been known because a case of corruption has just been concluded which dates 10 years back. It's as a result of these corruption scandals that seems to have forced the Government to create the Directorate of Corruption and Economic Crime (DCEC). One hopes that the mechanisms put in place by the government will adequately deal with this challenge.

World recession of 1992

In the midst of the BHC scandal, a world recession took place, which saw the diamond sales plummet thus lowering Botswana's income from the gem. The government responded by suspending projects that had not commenced which, were in the national development plan 7 (NPD7) until the situation improves. Government being the biggest player, its decision shook the industry. This situation coupled with BHC's decision to suspend housing projects reduced construction jobs dramatically. Many firms faced financial trouble as the margins on jobs were significantly reduced. Citizen firms in particular were hardest hit and faced liquidation. This was the first time that capacity of citizen-owned firms were questioned. It was also the first time that the plight of citizen firms was exposed and brought to the surface. In 1995, after hearing the cries of local contractors, the government tried to arrest the situation by a P50 million Pula fund to bail out citizen-owned firms. I have not read any evaluation report to assess the extent of success arising from this policy. In 1998, it set out new policies to further assist local firms. I will discuss the policies later.

It is therefore, against this background that the challenges facing the Botswana CI and its role in the socio-economic development will be examined further.

Information scarcity

One of the most disturbing facts about the CI in Botswana is that it is unresearched and documented. The industry has no history, for example, I challenged the local delegates to tell me the first construction firm in Botswana, local and foreign! It is easy to find out the first shop and first hotel in Gaborone. However, there are few information sources in the country about the CI, for example, Central Statistics Organisation (CSO) has some information on the number of CI firms, and the employment in the sector and value added activity of the sector. I also observed that there was a study, in 1992, conducted by Botswana Confederation of Commerce Industry and Manpower (BOCCIM) (BOCCIM, 1992). Since then, there is no comprehensive review of the industry that I'm aware of. Ladies and gentleman, the CI needs to know where it has come from to decide where to go, lest it goes backwards without realising it!

The following information needs to be researched into and compiled:

i. Historical information

ii. Cost data base

iii. Registry of the firms (consulting, and contracting) in the country

iv. A registry of local material producers

v. A registry of local suppliers

vi. A registry of training agencies.

The need to have such information cannot be over-emphasised , for example, cost information. Cost information is essential for planning especially for government projects. Construction cost information is scarce and unco-ordinated in Botswana. Anyone with such information has it as a private record and in their own format. There is no standard format for recording the data. I have reliably heard, that the government through CSO has just started work on the compilation of CI cost indices. However, until this work is completed the status quo prevails.

There is no documented information on the number of local construction material producers, their locations and capacities, nor information as to the total capacity of suppliers of construction materials and services.

There is no documented information as to the number of citizen construction professionals the Government has trained, as well as where they are. It is difficult to establish the:

i. Numbers of local contractors including those two have moved up (or down) the Central Tender Board categories of (OC, A, B, C, D and E)

ii. The number of local companies that have been taken over by foreigners and vice versa?

However, Government is currently busy with the formulation of a new Public Procurement system (PPS), which I hope will incorporate mechanisms of obtaining such information. I hope the University of Botswana, the Botswana Technology Centre, Botswana Institution of Engineers and Botswana National Construction Industry Council (BONCIC) will join the race to research the industry.

The numerous contract forms

There are many different Forms of Contract in use in the CI, such as the Government form, the BIDP form, the mines' form and other ad-hoc forms, as well as external forms. The CI should reduce the number of contract forms in order to reduce confusion and standardise contracting. We hope the completion of the Public Procurement System will have a significant input in giving direction regarding this aspect.

Quality

The absence of an industry-wide Quality Assurance system has meant that the quality of products and services in the CI has been questionable. There are several causes for these problems and I will mention a few.

Contractors

Contractors produce poor quality work on site for various reasons, it could be to maximise profits, or through lack of understanding of the requirements in instances where the documentation is inadequate, or where they inadequately resourced for the project. In some cases, where the client employs clerks of works (CoW) supervision is not satisfactory because of lack of experience, qualifications and commitment to duty. Lack of commitment to duty may be caused by frustration due to lack of support from employers. There have been cases of CoWs who have been posted to far-flung sites and then gone for months without pay. This makes CoW susceptible to corruption and bribery by the contractor. In some cases, the CoWs abandon sites to go and sort out their problems with their employers.

Dumping

Being a developing country, Botswana is faced with the challenge of dumping of poor quality merchandise, including construction materials and fittings. There have been cases of light fittings that melt and doors that fall off hinges soon after fixing. Vigilance and discipline are therefore essential on the part of the supervisors to ensure that the correct materials are used in the interest of good quality. One hopes that the establishment of the Botswana Bureau of Standards will assist in addressing this challenge.

Poor remuneration of Public employees

Another challenge that impacts negatively on quality is the poor remuneration of Government employees compared to their counterparts in the private sector. This is further compounded by the differential in remuneration between citizens and expatriate staff of comparable levels of qualification and experience. This situation is demoralising and leads to loss of enthusiasm and commitment to work, poor productivity and the brain drain out of Government. The Government is then left with capacity constraints, disabling it from implementing or adequately monitoring its projects. Citizens who leave Government are replaced with expatriates who have to go through a learning curve before they can be adequately productive. The constant change of personnel also robs Government of the advantages of continuity, swift and authoritative decision-making. Given the fact that the Government is the biggest client of the CI, one can imagine the impact of this aspect on development projects.

Artificial booms

Some people have attributed the poor quality to the pressures exerted on the industry by artificial booms, particularly those that precede national elections. It seems the Government sometimes intervenes in the industry at election time, resulting in disruption of National Development Plans (NDPs). The booms stretch CI resources beyond limits, leading to incomplete documentation due to time constraints. Programmes always become unrealistic causing everything to be done too quickly. Errors occur and there is not enough time carry out proper checking. This in turn leads to delays on sites when queries have to be answered or details revised.

Sometimes the intervention involves sudden suspensions of project implementation, resulting in untimely recessions that disrupt the CI. One hopes that elections fever will not become a customary challenge to live with forever. Any intervention by Government should be in the interest of the industry itself, not for political interest.

Negative attitudes

It is further argued that the consultants in the CI have adopted 'commercialism' in place of 'professionalism'. The quality of information issued to contractors for construction purpose is generally not adequate, and coupled with poor supervision, it results in a poor product in the end. Examples of poor quality were illustrated in March this year by one of the Government departments at a meeting with some consultants. Many of us remember sitting in a meeting and hearing statements to the effect that the contractor is the expert, and will know what to do. This was after, a detail is not provided for, but the contractor is presumed to be imaginative. In some cases it's the bill of quantities that provides the missing link! We must pull up our socks and do a professional job.

Government's concern on over-expenditure

Government is very concerned about perceived over-expenditure on its projects, which it believes is caused by the fact that consultants' fees are based on the value of the project. The higher the project value, the more the fees. As a result government has directed that all projects be given to consultants strictly by the tender system and also that projects should be split between pre and post contract stages with each stage being tendered for separately. Government thinks the involvement of one consultant in both services is disadvantageous.

However, the consultants on the other hand argue that the tender system does not necessarily guarantee value for money. To support this, they highlight the fact that the Department of Roads has always used this system yet our roads projects have consistently overran budgets, and been of poor quality. They also argue that some overruns are not genuine because the budgets were not correct due to incomplete briefs. They also argue that many of the cost increases are caused by variations, which are raised to accommodate the requirements of user departments, which were not included in the design brief (and the budget). Consultants also think that the lack of continuity between pre and post contract is not beneficial. They also argue that in a competitive system resources are going to be trimmed down to a minimum to bring costs down, and this minimum may not be the ideal.

Citizen Participation in the CI

Ladies and gentlemen, I wish to make one simple statement here, the local stakeholders, do not hate foreign firms or foreigners. What I want to emphasise here before I go any further, we are craving for a situation whereby, citizen firms are competitive and have the necessary capacity do so. We want to compete at the same level and we want a fair distribution of jobs.

Need for citizen participation

Any industry dominated by foreign firms is not a stable industry and in the long run does not benefit the socio-economic development of any nation. This is not a Botswana phenomenon. We have seen this in the US in the 1970s, when the American car industry was fighting the Japanese car invasion. When the fight settled, both car industries established parity and are now doing business in an amicable manner. Parity is the key to stability! Recently, the Assistant Minister of Finance and Development Planning observed that when Canada gave aid money to Botswana, it had a condition that Canadians should be contracted to do the job (The Botswana Gazette, 2000).

It is necessary to minimise the domination of the industry by foreign firms and allow meaningful citizen participation. The participation of citizens should be enhanced because like in any country they need to own the development. They will identify with their environment with pride and satisfaction. Citizens are well versed with the intricacies of their local environment. They can ensure that any impact on the environment is balanced. There is motivation to do good work if someone is going to be around for a long time. Citizens will also acquire experience and expertise through participation, and this will be enhanced when there are deliberate policies to facilitate this participation. The CI is one industry where culture can be expressed, and no one is better placed than a citizen is. Citizens are also more likely to use local materials, boosting other industries and creating employment. I now wish to discuss a few points regarding some stakeholders in the CI.

Contractors

In our local industry, foreign firms dominate the CI in all its sub-sectors of consulting contracting, subcontracting and supply. The main client, Government, gives work to contractors on the basis of categorised registration with the CTB. The lowest grade is "OC" and the highest is "E". Grade E is for work over P 8 million (US $1.6 million) in value and is also generally referred to as "unlimited" category. Grade E is the domain of foreign firms with the citizens being predominantly in the lower grades carrying out small projects. Only three citizen firms have achieved grade E category. According to records held by DABS, the first citizen owned firm, achieving CTB status was registered in 1977 (DABS, 2000). Therefore citizens have been participating in the industry for over 20 years, yet they are still struggling, surviving largely through special dispensation schemes! The domination of the industry by foreign firms may not be a good thing in the long run as already mentioned.

Consultants

Government has also overlooked the fact that the CI is not about contractors only. The consultancy sector of this industry is prejudiced by the same factors that affect the contracting sector, yet whatever interventions Government implements they have consistently ignored the consultancy sector. This is a situation for which Government has full responsibility to address.

Government Intervention

I must commend the Government for introducing a few policies meant to provide an enabling environment to local citizen contactors. The systems are namely the 2.5% price preference and the 30% job reservation, the 15% mobilisation loan and the reduced performance bond requirements. Whilst these dispensations appear to be successful it is difficult to confirm their success without the relevant studies. One of the perceived challenges to these dispensations is the apparent fronting which results in work reserved for citizens being done by foreign owned companies.

The Government should also be commended for establishing what was known as the Botswana Enterprises Development Unit (BEDU), whose task was taken over by the Integrated Field Services (IFS) unit of the Ministry of Commerce and Industry. BEDU was involved in helping citizen contractors, and was seen to be more successful than the present IFS Construction Estate. BEDU was more successful than the IFS because BEDU had experts seconded by the Swedish International Development Agency (SIDA) to act as advisors and trainers. When SIDA withdrew, the experts left and were replaced by people without appropriate expertise. IFS staff is inadequate, with some programmes being run by artisans rather than professionals. IFS is trying to provide a service to the CI (which is a commendable act by Government) however, it is not appropriately resources to carry out its objectives. Being a small unit (not even a department of government) it naturally has main Achilles' heel of Government, that of lack of flexibility. The CI is a dynamic industry that requires flexibility. A dynamic and flexible contractor development agency is therefore required, but IFS is not meeting the requirement. IFS has almost become a white elephant. Of recent the unit had a staff that comprised only two expatriate engineers and some artisans. The unit's only vehicle had broken down and the personnel could not get to the sites. The number of seminars and workshops have decreased and as a result the frequency of contractors' visits from the unit has decreased.

Tswelelo was another organisation, which became unsustainable after the departure of SIDA. Tswelelo, which was offering financial assistance and advice to citizen contractors, failed due to lack of fiscal discipline on the part of the beneficiaries.

Who should enter this industry?

Botswana practises the free enterprise system and therefore anyone should be free to participate in the industry. Government has not placed any restrictions on entry into the CI. However, it is important that those who do enter the industry are committed to it. They must abide by the best professional, ethical and business practices. People of different backgrounds have entered the CI and Government has assisted them with the hope that they would succeed.

People who think that the CI is a sector where you can make a quick buck should feel ashamed if at a later stage things go wrong. They however in the process give a bad name to the industry and embarrass the industry with their shoddy and unprofessional conduct. The same people may use the industry to make money, which they take out of the industry to finance other ventures at the expense of the growth of the industry. Money made in the industry should be re-invested in the industry as much as possible. I know this a common practice for business people to diversify third portfolio. However most do not have the capacity to do so and end up liquidated at the client's expense.

CI lacks vision

I must say that the CI lacks a long-term vision of its own. I have serious doubt whether it knows where it wants to be as a sector in the next twenty years, for instance! This applies to all its sectors i.e. the contractors, subcontractors and the consultants. Each of these sectors seems to be concerned only with their own specific affairs. This situation could be due to the absence of an umbrella body to organise and coordinate the CI. I notice that despite the rhetoric we have heard about the importance of the CI, the sector was not included in the national "Vision 2016" document. I also observed that it was mentioned in the NDP for the first time, in NDP8, in a small paragraph. A vision and strategies for future are a must if we are to have a viable and sustainable CI in Botswana.

The Way Forward

Ladies and gentlemen, I want to end this odyssey of Botswana's CI by noting and emphasising the following.

i. To ensure acceptable quality in the CI, Government as the main Employer should insist on enforcement of standards. The standards are there in the form of specifications, and these should be enforced through adequate monitoring.

ii. Government should realise that it is imperative to remunerate its employees adequately. Government needs to retain its employees to properly implement policies.

iii. Government should find a way of dealing with the issue of dumping, in the interest of good quality and reduced maintenance costs.

iv. Government should recognise its citizen professionals and engage in genuine consultation with them when formulating policies.

v. The preference schemes for local products and the dispensations in favour of citizen building contractors should be extended to include citizen construction professionals in the consultancy business.

vi. To assist with the question of Government over-expenditure, a cost database should be established and maintained, in the interest of accurate budget preparation.

vii. Communication must be established between consultants and the user departments so that the preparation of design briefs is based on first hand information, unlike currently where there is a "middle-man" with information being transmitted second hand.

viii. The National Development Plans (NDPs) should be adhered to and Government should not manipulate them for political interests to create artificial booms, which disrupt the Cl.

ix. Government should either turn IFS into a fully-fledged parastatal and resource it adequately or disband it and rely on the private sector professionals to provide the services IFS is trying to provide. It may be necessary to carry out an exercise to determine which option would be more cost effective. If it is retained it should be restructured and headed by a construction professional.

x. The CI should formulate a vision. It should also start consolidating information and creating records and documenting its history. It is only by seeing the whole picture regarding its size, where it comes from, past failures and successes that it can chart an appropriate way forward. All CI stakeholders should come together and formulate a vision, and there is no better organisation than the Botswana National Construction Industry Council (BONCIC) to take the lead in bringing together the stakeholders to work out strategies. Government should give BONCIC as much support as necessary.

CONCLUSION

I conclude with a word of thanks to CIB for giving Botswana a chance to share with other delegates from other nation experiences and ideas related to issues in the CI. Secondly, I like to thank the organisers for offering me a chance to reflect on our local industry. I am hopeful we shall now meet more often. Not forgotten are the sponsors who have made the event a success. Lastly, as stakeholders in the industry, we need to move beyond meeting and sharing a cup of coffee or tea; we need to move the industry into a position in which it can tackle present and future challenges.

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