

THE EVALUATION OF SELECTED RISKS AND OPPORTUNITIES  
ASSOCIATED WITH GLOBALISATION OF SOUTH AFRICAN  
CONSTRUCTION COMPANIES INTO SOUTHERN AFRICA

By

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In the Faculty of Engineering, Built Environment and Information Technology

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## **DECLARATION**

I declare that this research is my own, unaided work, except where otherwise stated.

This treatise is being submitted in partial fulfilment of the requirements for the degree of MSc (Project Management) at the University of Pretoria. It has not been submitted before for any degree or examination at any other University.

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F. Wadiwalla

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- ◆ Mr. Harry Nieman of Murray and Roberts; International Business Development

## **ABSTRACT**

Title of Treatise: Selected Risks and Opportunities Associated With  
Globalisation of South African Construction  
Companies into Southern Africa

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Globalisation is an inescapable fact. National economies are no longer immune to external influences and cannot be insulated from global effects. South African construction companies globalise as a result of expansion, diversification, deepening of trade and to eliminate the cyclical nature of the construction market within South Africa.

A literature review revealed the following risks for South African construction companies when globalising into Southern Africa: competition from other international construction companies, the lack of political stability in the region, fraud and corruption, conflicting cultures of varying regions, the impact of foreign exchange, under-researched and documented industries and lack of quality assurance and the impact of HIV/AIDS amongst other risks.

In contrast, funding and foreign aid, the superior management capability and information technology that South African construction companies possess, the opportunities to form associations and joint ventures with other construction companies to access markets and the possibility of advance payments are amongst the opportunities that can be exploited in the Southern African region.

Sub-Saharan Africa is viewed as one of the world's poorest and under-developed regions. The region has alarming HIV/AIDS infection rates prevalent. However, it is a region rich in natural resources and tourism potential.

The countries analysed in this treatise for the risks and potential opportunities for South African construction companies are: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.

A common trend, such as, political instability, under-developed infrastructure, massive housing, educational and health facility needs, ample supply of unskilled and semi-skilled labour and a high dependency on foreign aid is dominant in most Southern African countries. Conversely, opportunities exist to upgrade infrastructure, address the massive housing, schools and hospitals need, exploitation of tourism potential and the ability to form joint ventures with local construction companies in an attempt to transfer skills, share risks and overcome cultural barriers.

Interviews with representatives of leading construction companies emphasised risks such as late and non-payment, logistics, foreign exchange fluctuations, culture differences (including language disparity), bureaucracy, health of workforce and labour productivity. With very few exceptions, most respondents had similar views on risks perceived in particular countries.

Interviewees highlighted opportunities such as higher returns, access to larger markets, earning foreign exchange, the region's need for housing, schools and hospitals, availability of donor and foreign aid, superior management capabilities of South African contractors, reconstruction and rehabilitation of dilapidated buildings and tourism demand. With very few exceptions, most respondents had similar views on opportunities perceived in particular countries.

In terms of risks, opportunities and statistical data, the countries were ranked as follows, with first being most favourable and the last mentioned as least favourable: Botswana, Namibia, Mozambique, Swaziland, Angola, Lesotho, Zambia, Zimbabwe, Malawi.

A way forward is presented by means of “words of advice” and rules of thumb from the representatives of the leading construction companies in South Africa who have already tested the waters.

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## LIST OF ABBREVIATIONS

BHC	Botswana Housing Corporation
CEO	Chief Executive Officer
CGIC	Credit Guarantee Insurance Corporation
CVA	Construction Value Added
CMA	Common Monetary Area; comprising of Lesotho, Namibia, South Africa and Swaziland
CPI	Corruption Perception Index
FIDIC	Federation Internationale des Ingenieurs-Conselis (International Federation of Consulting Engineers)
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HIV / AIDS	Human Immune Virus/ Acquired Immune Deficiency Syndrome
IMF	International Monetary Fund
SACU	Southern African Customs Union; comprising of Botswana, Lesotho, Namibia, South Africa and Swaziland
SADC	Southern African Development Community
Selected SADC Countries	Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia, Zimbabwe
USAID	United States Aid Funding

## **CHAPTER 1**

### **THE PROBLEM AND ITS SETTING**

#### **1.1 Introduction**

This chapter describes the milieu of the problem, what questions were asked in an attempt to obtain answers to the problems, the delimitations that were defined, the assumptions that were made, the importance of this study and how the research was to be conducted.

#### **1.2 The Milieu of the Problem**

In an attempt to remain profitable in a cyclical South African economy, South African construction companies endeavour to globalise. To be competitive and dynamic in a global arena, the players should identify, analyse, evaluate and manage the risks and opportunities associated with such an endeavour.

The purpose of this study is to evaluate selected risks and opportunities associated with globalisation of South African construction companies into Southern Africa. In other words: “Which Southern African countries are easier to globalise into and which are more difficult? Why is it so? What does it take to be more effective in a Southern African country?”

### **1.3 Sub-Problems**

- 1 The first sub-problem is to establish what the “selected” risks and opportunities that exist when globalising into Southern Africa are. (What are the risks and opportunities when globalising into Southern Africa?) It is investigated under the following headings:
  - 1.1 Globalisation
  - 1.2 Review of the national and international literature identifying most notable risks and opportunities when globalising
  - 1.3 The current status of selected SADC countries
  - 1.4 The analysis of selected SADC countries in terms of risks and opportunities
  
- 2 The second sub-problem is to establish what the experience, internationally, of South African construction companies that have already globalised in terms of risks and opportunities has been – a market survey. (What has South African construction companies already experienced when globalising into Southern Africa?)
  
- 3 The third sub-problem is to evaluate the severity of the selected risks and favourableness of the selected opportunities and to evaluate each selected SADC country. (Which Southern African countries are easier to globalise into and which are more difficult? Why is it so?)



- 4 The fourth sub-problem is to make recommendations, on how South African construction companies can be more effective when globalising. (What must South African construction companies do to be more effective when globalising in Southern Africa?)

#### **1.4 Hypotheses**

- 1 The first hypothesis is that certain risks and opportunities have a far greater impact than other risks and opportunities when globalising into Southern Africa and thus “selected” risks and opportunities can be reviewed
  - 1.1 Globalisation does attract risks and opportunities
  - 1.2 A review of national and international literature will identify most notable risks and opportunities when globalising into Southern Africa
  - 1.3 The review of statistical data does illustrate the current status of a country’s economic development and impact on construction
  - 1.4 Each selected SADC country can be analysed in terms of risks and opportunities
  
- 2 The second hypothesis is that South African construction companies can associate specific experiences (risks and opportunities) to globalisation into Southern Africa

- 3 The third hypothesis is that selected risks and opportunities and each Southern African country can be evaluated by rating on a scale
- 4 The fourth hypothesis is that recommendations on how South African construction companies can be more effective when globalising into Southern Africa could be made after investigation of the items above

### **1.5 Delimitations**

- ◆ The study is limited to selected building construction companies in South Africa and thus excludes civil engineering construction companies, any professional construction-related consultants and construction commodity suppliers
- ◆ With regard to experiences already encountered, this study will be limited to the information that the interviewees were willing to divulge
- ◆ A considerable amount of literature will be reviewed, however, it would be impossible to compile an exhaustive list of risks and opportunities. Thus this treatise will concentrate on those aspects “most likely” to be encountered, i.e. “selected”
- ◆ The literature reviewed will not be limited to the globalisation of construction companies, but will include literature that generally refers to globalisation of businesses

## 1.6 Definitions

- ◆ A risk can be defined as the chance or probability of danger or loss or the negative influence (impact) on the achievement of a specific goal or objective
- ◆ Opportunity can be defined as “a favourable chance or opening offered by circumstance”. Thus opportunities will relate to the circumstances that would add to a more favourable position
- ◆ Southern Africa – This term implies membership of the Southern African Development Community (SADC) comprising of Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe. The remainder of the SADC countries have been excluded for the purpose of this study
- ◆ Globalisation, from an economic perspective, represents the spread of free-market capitalism. From a social perspective, it represents the sharing and exchange of ideas, beliefs and values. From a legal perspective, it represents rules and regulations of organisations such as the World Trade Organisation. From a political perspective, it represents international relations and multi-trade agreements and trade barriers (Najjar, 2003)

In the context of the treatise the following definitions will apply:

- ◆ Globalisation excludes the tactics that South African companies use to eliminate international competition to enter South Africa
- ◆ Gross domestic product (GDP) – is the total value of all goods and services produced within a country during a given year. It is also a measure of the income generated by production within a country

## **1.7 Assumptions**

The following assumptions were made:

- ◆ Construction companies will continue to globalise
- ◆ Future experiences are reflections of past experiences. Thus past experiences in some countries can be used to predict the future experiences in other countries
- ◆ The sample of interviews will be representative of the majority of construction companies in South Africa that have globalised

## **1.8 The Importance of the Study**

“It is anticipated that the planned expansion of the company’s international operations will counter the traditionally cyclical nature of the South African market and should facilitate a more consistent growth in earnings in the future.”

Grinaker Construction Limited Annual Report 2000

“The depressed South African economy has tended to drive our focus to international opportunities.” Murray and Roberts Chairman Statement – Annual report 1999

The above statements are typical of much of the discussion with regard to the desire for South African construction companies to globalise. Given the dire economic circumstances of South Africa in the midst of globalising forces, the

South African construction companies endeavour to formulate a response. This study will:

- ◆ Draw attention to risks, which act as a constraint on the project's cost, time and quality, and opportunities that South African construction companies can exploit in the selected SADC countries in an attempt to expand business and earn hard currency
- ◆ Develop a short list of risks and opportunities which can be used as baseline checklist for players venturing into a global field
- ◆ Provide an evaluation of which Southern African countries are more favourable to globalise into compared to other Southern African countries
- ◆ Provide advice in terms of globalising into the selected SADC countries

### **1.9 Research Methodology**

- 1 The literature in journals, books and seminars will be reviewed to identify challenges and opportunities related to globalisation
- 2 To determine what the experiences of South African construction companies have been, structured interviews will be conducted with suitable company representatives of the major construction companies in South Africa
- 3 To evaluate risks and opportunities for South African construction companies, the information obtained in the literature will be analysed. This analysed and interpreted information will then be matched with the experiences of South African construction companies revealed during the interviews

## **CHAPTER 2**

### **LITERATURE STUDY OF SELECTED RISKS AND OPPORTUNITIES THAT EXIST WHEN GLOBALISING INTO SOUTHERN AFRICA**

#### **2.1 Introduction**

The first sub-problem of establishing the “selected” risks and opportunities that exist when globalising into Southern Africa is investigated in this chapter under the following headings in an attempt to answer the question: “what are the risks and opportunities when globalising into Southern Africa?”

- ◇ Globalisation
- ◇ Review of national and international literature identifying most notable risks and opportunities when globalising
- ◇ The current status of the selected SADC countries
- ◇ The analysis of the selected SADC countries in terms of risks and opportunities

#### **2.2 Globalisation**

##### **2.2.1 What is Globalisation?**

In most basic terms, the globalisation of the world economy is the integration of economies throughout the world trade, financial flows, the exchange of technology and information, and the movement of people. An increasingly large share of world GDP is generated in activities linked directly or indirectly to international trade. There has been phenomenal growth in cross-border financial

flow. In addition, the revolution in communication and transportation technology and the much-improved availability of information have allowed individuals and firms to base their economic choices more on the quality of the economic environment of different countries. As a result, economic success, in today's world, is less of a question of relative resource endowments or geographical location than it used to be in the past. Now it is more a question of the market perception of the orientation and predictability of economic policy ([www.imf.org](http://www.imf.org) - 2003-01-29)

### **2.2.2 Why Globalise?**

Globalisation is first and foremost a result of the expansion, diversification and deepening of trade.

CEO of Group Five, Mike Lomas, said they decided to expand into the global market for a number of reasons. These included depressed local markets, the ability to earn hard currency, to exploit the opportunities available in other emerging markets and to achieve sustainable growth. "We are competitive against international contractors within emerging markets, primarily due to the Rand cost base," says Lomas (Group 5 Brochure, 1999)

### **2.2.3 The Implications of Globalisation**

Globalisation presents both risks and opportunities in developing countries, such as those in the Southern African Region. It also demands that the region becomes more competitive in attracting investment, applying new technology,

and producing goods and services that can compete efficiently on the global market.

National economies are no longer immune to external influences and cannot be insulated from global effects. No country or economy can function in total isolation. Today people are increasingly able to acquire information from all corners of the world. Consumers want to buy the best products at the best prices, no matter where in the world they are produced. In a globalised world business will become relatively smaller but more dynamic. We have seen this shift in the trend of major construction companies who mainly manage the construction procurement and complete mammoth projects without having a single bricklayer in their direct employ. Global construction output is estimated at somewhere between US\$ 2500 and US\$ 3000 billion annually. International construction accounts for between 3% and 4% of all global economic activity (Drewer, 2001).

Foreign aid funding is now coming with different strings attached. Governments are having to adopt prudent, free market policies to qualify for funds. The countries in Africa that are currently making headway are those that are complying with these requirements. Others are bound to follow. Barriers to entry are down and development possibilities are improving (Skeen, 1998).



Increased globalisation means that any loss of relative competitiveness translates into a far greater loss of markets, abroad and at home.

Jordaan (2001), states that: “Southern African countries are unattractive to global investors on account of their political instability, lack of accountable government, poor infrastructure and massive brain drain. Therefore investor confidence must be restored and the general perception changed if Southern Africa is to play a substantial role in the global economy. It is, however, important to take cognisance of the fact that almost all Southern African countries are engaged in market orientated reforms aimed at restoring investor confidence. Many previously state owned banks have been privatised and nearly all countries have established stock exchanges. Exchange controls have also been liberalised extensively, privatisation drives have created many opportunities and various investments incentives are in place. The SADC is arguably Africa’s fastest growing region but military disputes, in particular, are spoiling potential harmony.”

#### **2.2.4 Globalisation and Regionalism**

Driven by explosive growth of information, communication and other technological changes, the interrelated processes of globalisation and regionalism profoundly influence Africa’s development needs, risks and opportunities. Keeping pace demands literacy, numeracy and technical ability, skills that the majority of Africans do not possess. To enhance Africa’s

competitive position in the global economy, African leaders are in the forefront of efforts to foster regional economic integration. They know Africa's problems are not contained within the national borders; political instability in one country spills over to others; infectious diseases spread across borders; poor transport and communication infrastructure links between countries raise costs of doing business and reduce market size. Regional approaches can increase investment and improve economic performance.

Economic integration in Southern Africa has been enhanced significantly through assistance of regional protocols relating to trade, finance, investment, transport, telecommunications, laws, amelioration of cross border trade barriers, facilitating efficient movement of goods between countries and frameworks for good governance.

### **2.3 Review of National and International Literature Identifying Most Notable Risks and Opportunities when Globalising**

#### *Risks:*

Kerzner (2001), defines risk as a measure of the probability and consequence of not achieving a defined project goal. Risk involves a notion of uncertainty. It has two primary components; a probability of the occurrence of the event and the impact of the event occurring. Risk constitutes a lack of knowledge of future events; an unfavourable event is called a risk. Risk increases with hazard but

decreases with safeguard. A review of literature identified the risks discussed below. Thus, in this context, construction companies should identify these hazards and allow for safeguards to be developed to overcome the risks or to reduce risks to an acceptable levels.

### **2.3.1 Competition**

Many construction projects, which developing countries require for their socio-economic development, are beyond the capability of their local industries to undertake owing to the size, novelty and complexity of those projects. The effect of globalisation to these industries is therefore an inescapable fact due to the foreign input required to accomplish these projects, observes Ngowi (2002).

In 1997, only 5% of the total international work carried out by international contractors was carried out in Africa, (Murray, 2000). This obviously has implications for South African contractors, which are currently focussing on the southern and sub-Saharan African markets. The regional scenario of contracting in Southern Africa is dominated by South African Contractors, following the downturn in contracts in South Africa, however certain countries have been penetrated and dominated by Chinese, European, Malaysian and Indian contractors. South African construction companies are thus forced to recognise and evaluate competitors other than their usual South African counterparts.

In 1998, Murray and Roberts RSA ranked 45<sup>th</sup> amongst the top 225 international contractors with an international revenue of US\$ 565 million and with 48% of their total profile being international work. Murray and Roberts climbed the league table from position 121 in 1995 to 45 in 1998. What is evident from the ranking list is that the top ten international contractors earn over 50% of their revenue outside their home countries (Murray, 2000).

Table 2.3.1 gives an indication of the size and performance, in terms of international contracting, of the seven largest South African construction companies.

*Table 2.3.1: Turnover and Percentage of International Work per Top South African Construction Companies*

<b>Rank</b>	<b>Contractor</b>	<b>1999 Turnover US\$ million</b>	<b>Percentage of work outside South Africa</b>
1	Murray and Roberts	2 162	33%
2	LTA	811	55%
3	Grinaker	467	27%
4	Group Five	445	27%
5	Wilson Bayly Holmes Ovcon	198	30-40%
6	Concor (Hochtief)	195	35%
7	Basil Read (Bouygues)	145	54%

**Source:** Murray 2000

South Africa's largest construction company, Murray and Roberts, percentage of international work reduced from 1998 (48%) to 1999 (33%). Some companies

are still lower than the 50% usual portion for established international contractors, however trends towards the 50% appear to be improving. Large European contractors, Bouygues and Hochtief, are shareholders of two of the seven companies. LTA and Grinaker have since merged to form Grinaker/ LTA an Aveng Group. Together, the seven companies make up about 39% of the South African share of the construction market and 61% is owned by others (Murray, 2000). South African construction companies also become targets for international take-overs.

The South African Global Company Awards, in 2002, ranked Group Five, 17<sup>th</sup> amongst all companies in South Africa giving it a global index score of 29.3, stating that Foreign Assets are 28.55% and Foreign Turnover is 29.95%. Group Five decided to enter the global market in about 1998 and currently generates 37% of its revenue outside of South Africa. Mike Lomas, CEO, would like this to reach 60%, however Group Five would still like to remain in the top 3 companies in South Africa (SA Global Company Awards, 2002. An insert in the Star Newspaper, October 2002).

The difficulties currently faced by established South African contractors can be summarised as follows (Murray, 2000):

- ◆ Intense competition from experienced European and United States companies in Southern Africa

- ◆ South African contractors choice of sub-Saharan Africa as a suitable market when in fact it is a very difficult one
- ◆ Lack of managers and experienced staff in international contracting, which is evidently different from domestic work
- ◆ Reluctance to invest in internationalisation. This takes a minimum of two years and may take up to ten to consolidate its position. Shareholder pressure during the learning curve may lead the company to take a half-hearted approach

The gap between the local construction companies and their foreign counterparts for example in technology, finance, management and know-how could be filled through technology transfer via joint ventures. However, foreign firms are not keen to effectively transfer their technology since they believe that it means they would be nurturing their future competitors (Ofori, 2000).

Large multi-national contractors form associations to spread risks and increase their critical mass. This is particularly noticeable with European contractors. Only recently have South African contractors began to associate themselves with European contractors instead of counterpart South African contractors. For this to be successful it is believed that strong representative organisations are needed. The advantages are, evidently, the dilution of risks and start-up costs.

Competition however, causes South African construction companies to re-define their service offerings.

### **2.3.2 Political Stability**

One of the distinct features of the developing countries is the political and insecurity problems they face. Due to political instability and war in the Southern African countries, they are unable to attract foreign private investments on large scales. For years now politics in Southern African countries are very sensitive to the politics of their neighbouring countries and, thus, viewed globally as a politically unstable region. Africa's mostly costly and complex war continued in Angola, despite various efforts to bring it to a political settlement (Matlosa, 2000). Sporadic violent conflicts in Lesotho and recent interstate conflicts between Botswana and Namibia are other examples of political instability in the region. Zimbabwe's legal system is in complete disarray and the country is crippled.

Issues at the national and regional level, including inconsistencies in policies, laws and regulations, affect political stability, creating an environment of confidence or uncertainty for the return on capital investment. The lack of transparency in policy decisions is an indicator of political instability. The probability of occurrence of a political factor might be small but the impact could be relatively large. Some associated political factors are: Political takeover, war, allegations of corruption and nationalisation of assets. Legal risk relates to

unexpected changes in government policies pertinent to rules and regulations and currency conversion, absence of appropriate regulatory systems, rates and methods of taxation including customs, royalties, convertibility of currency, role of local courts in arbitration, and the methods by which electricity tariffs are set and approved (Kwak, 2003).

Construction projects in developing countries face risks of various natures associated with political and insecurity problems. Stability is crucial for development. Government continues to be a major client in construction investment of most of the countries reviewed, implying that its workload depend mainly on government policies and direction.

All SADC countries have embraced the practice of regular multi-party elections, with the exception of Congo-Kinshasa and Swaziland. In addition, positive development for democratic governance and stability in Namibia was followed by the ending of another long-drawn violent conflict in Mozambique in 1992. The peace dividend that Mozambique has enjoyed since then has been enhanced by the two successful elections held in 1994 and in 1999, respectively (Matlosa, 2000).

### **2.3.3 Fraud and Corruption**

Southern African countries are cluttered with allegations of corruption and fraudulent dealings. Following such allegations, many construction projects are



then either disrupted or cancelled with a negative influence on assistance by means of foreign aid. Binnington (2002) warns that, “Obstacles may be put in the way of establishment and disestablishment unless appropriate palms are greased. And in case of disputes, some countries may make it impossible to remove plant from site.”

The World Bank defines corruption as “abuse of public office for private gain”. Inevitably, political interference, coupled with the lack of transparency and regulatory institutions, bribery and corruption are widespread in international development projects. Corruption is based on using unlawful influence to extract additional costs to receive or give preferential consideration in awards and agreements (Kwak, 2003). It is not uncommon that only a minimal percentage of the money earmarked for development actually reaches the end user. Some people either deliberately create bureaucracy bottlenecks to attract bribes for themselves, or create bureaucracy ‘red tape’ to protect themselves from corruption allegations (Okema, 2000).

According to a leading anti-corruption organisation, Transparency International, the construction and arms industries are leading business sectors with the greatest propensity to pay bribes (Okema, 2000).

Transparency International’s annual Corruption Perception Index (CPI) provides a measure of corruption from country to country. A recent CPI ranked 99

countries on the basis of polls carried out by 17 different institutions, excluding any country for which at least three independent polls were not available. Scores were allotted from 10 to 0, with 10 indicating “very clean” and 0 “highly corrupt”. The rankings and scores for the year 2000 are shown in the Table 2.3.2, for the countries analysed in this study. Lesotho and Swaziland were excluded, as independent polls were not available. However, the CPI only considers the level of corruption within a country and does not attempt to take account corrupt payments made by exporters to foreign officials. (Moon, 2001).

*Table 2.3.2: Corruption Perception Index*

<b>Rank</b>	<b>Country</b>	<b>CPI</b>
1	Botswana	6.0
2	Namibia	5.4
3	South Africa	5.0
4	Malawi	4.1
5	Zambia	3.4
6	Zimbabwe	3.0
7	Mozambique	2.2
8	Angola	1.7

*Source: Transparency International*

#### **2.3.4 Culture**

Kwak (2003), states that, “understanding culture is the starting point for learning the meaning of development, the values that guide people’s actions, and the behaviour of administrators..... Cultural differences emerge in many types of

settings, from assumptions to design to technology and management styles.” The failure to consider and incorporate cultural traits in the procurement systems of construction projects in Southern Africa is a major contributor to the generally poor performance on projects (Ofori, 2000).

International consultants have different socio-cultural backgrounds compared to the beneficiaries. They may not be familiar with local resources, and are accustomed to different approaches. This causes conflict of interest, additional pressure on executives, frustration that restrains or obstructs progress and leads to the loss of opportunities, cost overruns and schedule delays.

The human dimension has been a persistent puzzle, especially in the unfolding globalisation era. Culture does matter in creating good management practice. What is culture? Simplistically, it is “the way we do things around here”. More complexly, it is the synthesis of attitudes, values, beliefs, behaviour, work ethic, business ethics, attitude to environment, interaction with others, religion and stereotypes which have been passed on or learned (Langford, 2000). Culture may be transmitted tangibly as well as behaviourally.

Quality of work produces results from a combination of factors, such as, cultural, technological and educational (Langford, 2000). There are countries where work gets done through intricate networks of personal contacts. Business is done between friends, relatives and people or groups well known to one another.

South Africa is rated to be “Moderately Deal Focussed” whereas the rest of the SADC countries are rated as “Relationship Focussed” in lieu of “Deal Focussed” (Langford, 2000).

Cultural factors that define business behaviour are: formality, attitudes to time and the level of expressiveness in a culture (Langford, 2000).

- ◆ Formality: Formal cultures emphasise status, hierarchies, power and respect. Informal cultures emphasise an equality of status. Botswana can be considered to have an informal culture
- ◆ Attitudes to time: Monochronic cultures are time and schedule obsessed. Polychronic cultures place less emphasis upon strict punctuality and are not obsessed with deadlines. Meetings in monochronic cultures are ordered and agenda driven. Meetings in polychronic cultures are likely to contain meetings within meetings. The developing world is set in a polychronic business culture and the developed world tends to be monochronic. South Africa is said to be moderately monochronic whereas the other SADC countries are polychronic
- ◆ Expressiveness: Culture shapes how expressive we are allowed to be. We express ourselves in a number of ways: verbally (what we say), paraverbally (how we say it) and nonverbal (body language). Some cultures are very expressive and some are reserved

An abiding theme often runs through the anecdotes of expatriate construction managers, namely how corrupt a country is in gaining permissions, licences, approvals, etc. What is evident, is that ethical differences have dominated the discussion of cultural difference. Ethical differences do not universally manifest themselves as bribery and corruption, but issues of nepotism may be seen as corruption by the North and West of the World and yet strongly rooted in family loyalty in the South and East of the World. Gifts in one culture may be seen to curry favour, yet in others are seen as a signal of trust (Langford, 2000). The study of ethical values could add to the debate about developing countries. How do international construction companies take control of the cultural dimension?

### **2.3.5 Foreign Exchange**

Every transaction that crosses the national border results in exposure to foreign exchange risk. Without proper management, a small movement in the currency exchange rate can turn an international project from a profit to a loss.

Foreign exchange rates can be volatile, and the changes are difficult to forecast. The direction, magnitude and timing of changes, are outside the control of any construction firm. Schaufelberger's (2003), states that major findings indicate that a contractor must incorporate expected future exchange rates in bid preparation and then hedge cash flows during project execution.

Most developing countries import quite a lot of construction materials, equipment and machinery for use in the construction industry, and the balance of payment instability that can occur due to the sharp fall in terms of trade can pose serious risks and uncertainties to projects (Okema, 2000).

Many countries impose foreign exchange restrictions or controls to prevent currency speculation and to protect their reserves. These restrictions affect the availability and value of a currency. These controls are designed to limit a customer's ability to freely convert one currency into another (Schaufelberger, 2003).

When a construction firm has a foreign exchange exposure, it incurs a risk that the price of the currency will change. The magnitude of the risk is related to the volatility of the exchange rates and the amount of currency that needs to be exchanged. The risks faced by an international contractor can be grouped into two categories: translation risk and transaction risk (Schaufelberger, 2003).

a) Translation risk: Also known as balance sheets exposure, concerns the impact of exchange rate movement on assets and liabilities dominated in foreign currencies. For example the Rand value of assets and liabilities related to the project will vary as the exchange rate between the Rand and the other Southern African currency changes

- b) Transaction risk: also known as cash flow exposure, occurs when one currency must be changed for another. This involves uncertainty regarding cash flow

There are a variety of exposure management techniques that a construction firm can use to minimize and avoid foreign exchange risks (Schaufelberger, 2003).

- a) Internal currency management techniques (available within the company): If construction materials are imported and the currency in which they are invoiced is expected to appreciate against the currency in which the contractor receives payment from the client, the contractor could pay the invoice immediately and reduce transaction risk. The contractor may require more working capital (bridging finance) to adopt this technique. Another technique to dominate expenditures is to pay in the same currency as income is received. This reduces transactions risks but depends on suppliers, subcontractors and labour accepting this currency. Yet another technique could be to negotiate the payment of all items in a strong currency such as US\$, Euro or Japanese Yen. All payments made and received will be in the common currency.

When a currency is expected to appreciate, the construction firm should attempt to build up cash, short-term investments, receivables and inventories dominated in that currency. Conversely, if currency devaluation is expected, the firm should increase its liabilities, payables and borrowings

b) External management techniques (involving the use of external institutional services and financial markets): A construction firm, who is working for a client in a country whose currency is weak and has to invoice in the currency of that country, can hedge against the risk of devaluation by offsetting the receivables by securing a loan in the local currency. The company can use the client's periodic or certificate payments to repay the loan.

If a construction company has foreign exchange outflow commitments, such as for imported materials, it can hedge its currency exposure by making investments in the foreign country. The construction company can then make the invoice payments by liquidating the investment and avoid exchange rate risk.

Construction companies can purchase forward exchange contracts to hedge against foreign exchange fluctuation.

Another external technique is for the construction company to purchase a currency option from an options exchange. A currency option gives the buyer the right, but not an obligation, to exchange a certain amount of currency at an agreed price.

Management of the currency exchange risk is critical if the construction company is to be successful in the international market. Unanticipated exchange rate fluctuation can turn a profitable project into an unprofitable one. Anticipated exchange rate fluctuations should be considered in developing bids or tenders, and cash flows should be hedged during the project execution.



The Common Monetary Area (CMA) consists of Lesotho, Namibia, Swaziland and South Africa. The Loti of Lesotho (or Maloti – plural), Namibian Dollar and the Lilangeni of Swaziland are pegged to the South African Rand at parity under the CMA agreement. There are no exchange restrictions within the CMA ([www.scmb.co.za](http://www.scmb.co.za) - 2003-02-26).

Botswana, Lesotho, Namibia, Swaziland and South Africa are members of the Southern Africa Customs Union and there are generally no import restrictions between the five countries ([www.scmb.co.za](http://www.scmb.co.za) - 2003-02-26).

### **2.3.6 Research, Documented Industries and Quality Assurance**

One of the most disturbing facts about the construction industries, for the countries reviewed in this study, is that they are under-researched and documented. Construction cost information is scarce and uncoordinated. There is very little documented information on the number of local construction material producers and suppliers, their locations, their capacities, etc. In addition, the absence of an industry-wide Quality Assurance system and National Standard Specifications means that the quality of products and services is questionable. Enforcement of regulations are not consistent. The results are, that construction materials are produced below standards. Being developing countries, they are faced with the challenge of dumping of poor quality merchandise, including construction materials and fittings. Furthermore, it is argued that the consultants

in the construction industry have adopted 'commercialism' in the place of 'professionalism' (Palalni, 2000).

### **2.3.7 The Impact of HIV/AIDS**

It is of critical significance that approximately 40 million people are infected with HIV today and at least 25 million are workers aged between 15 and 49. This has implications for the size and structure of populations, for family and social cohesion, and for the livelihoods of individuals and the economies of nations. The size of the labour force in high-prevalence countries will be between 10% and 30% smaller by the year 2020 than it would have been without HIV/AIDS ([www.ilo.org](http://www.ilo.org) - 31-01-2003)

Infectious diseases threaten not only the health and well being of Africans, but social and political stability and economic productivity. By the end of 1998, nearly 23 million adults and children were estimated to be living with HIV/AIDS in sub-Saharan Africa, accounting for two-thirds of the world's infected persons. More than 1.8 million Africans will die from AIDS in 2003. The latest infection rates are staggering. Problems extend beyond the health sector. Economists estimate that the shrinking labour pool will slow the continent's economic growth rate by as much as 1.4% annually for 20 years. HIV/AIDS has raised the cost of doing business, killed professionals, reduced incomes now and investments in the future. Sub-Saharan Africa accounts for 95% of the 13 million children orphaned by AIDS ([www.usaid.gov](http://www.usaid.gov) – 29-01-2003).

### **2.3.8 General Risks**

There are many internal and external, visible and invisible factors that influence the environment and create risk in accomplishing the project objectives, such as:

- ◆ Late and non-payment: Amongst other contract and contractual performance risks and uncertainties are the challenges that the client may pay, or not pay at all, or partially pay, as well as paying timely. In developing countries, payment from government is most uncertain and riddled with various bureaucratic red tape. Late payment from a client causes cash flow problems for contractors and often results in intermittent work (Okema, 2000).
- ◆ Insurance industry risks and uncertainty: In construction projects, there is the essence of performance guarantees, insurance of goods, insurance of works, workers, plant and equipment, etc. in the way of mitigating risk and uncertainty. Each country and project must therefore be assessed on its own merit, as in some countries, due to poor performance, clients do not accept the insurance bonds and instead require a demand guarantee from a reputable bank
- ◆ Procurement of plant and equipment: Due to most developing countries importing plant and equipment, construction companies should have contingency plans (such as alternative hiring and availability of spare parts) should plant and equipment break-down
- ◆ Permits, customs and import duties: Prior to globalising, construction companies should assess the countries' requirements regarding obtaining the necessary work permits and customs and import restrictions with regard

to getting labour, materials, plant and equipment through customs on time and without unexpected costs

- ◆ Anti-globalisation: Nevin (2000) states that, “Virtually from the Limpopo to the Nile, Africa has been unanimous in its denunciation of globalisation.” South Africa badly wants its place in the global village. Its problem is to court prosperous westerners, while at the same time being seen to share the anti-globalisation indignation of its African kith and kin. South African construction companies may be treated with resentment and suspicion, in countries with sentiments for anti-globalisation, and who view globalisation as a new form of oppression. In addition, developing countries may have a stigma of being dumped with poor quality merchandise, including construction materials and fittings
- ◆ Forced joint ventures: In an attempt to relieve the negative effects of globalisation, clients may assert pressure on foreign construction companies to form joint ventures with local firms as a means to transfer skills and reinvesting into the host country. Apart from clients, a survey conducted by Ngowi (2002) revealed that contractors (respondents) owned by foreign principals are of the opinion that they play a significant role in raising standards and introduce best practices for construction in the country. On the contrary, most of the local contractors (71%) are of the opinion that the foreign firms are only interested in earning and repatriating money from the country. Clients, however, may set requirements to use local labour and materials in order to repatriate funds back into the local community.

Construction companies must assess the impact of such as constraints on the project success variables when submitting tenders.

Risks and uncertainties are not synonymous with failure and losses, though they pose great project management challenges. Kwak (2003), summarizes the various risks factor characteristics and impacts as depicted in Table 2.3.3.

*Table 2.3.3: Critical Success Factors for International Development Projects*

<b><u>Factors</u></b>	<b><u>Characteristics</u></b>	<b><u>Impacts</u></b>
Political	Inconsistency in policies and regulations, political instability, war, revolution and import restrictions. Low probability and high impact	Environment of uncertainty on return on investment. Hesitant investors
Legal	Unexpected changes in laws and regulations, policies, currency conversion, lack of appropriate regulatory systems and role of local courts in arbitration	Lack of conducive environment to foreign investments and restricted technology transfer. Effects of customs, trade and tariff barriers.
Cultural	Differing socio-cultural backgrounds of stakeholders and different thought processes	Conflict of interest, extra pressure on executives and inefficient use of resources
Technical	Use of technology incompatible with project and use of incompatible standards for manufacturing and services	Under performance of unsustainable project and stakeholder dissatisfaction
Managerial and organisational	Inadequate or ineffective project management, lack of appropriate processes or resources	Project failure, stakeholder dissatisfaction
Economical	Change in domestic economic conditions, increased competition and regulatory conditions. Fluctuating exchange rates	Project unsuitable or cancelled

<b><u>Factors</u></b>	<b><u>Characteristics</u></b>	<b><u>Impacts</u></b>
Environmental	Pollution, noise, air, water and visual; unsuitable use of natural resources	Environmental degradation and social resistance to economic changes
Social	Ethnic hostility, communication barriers, religious fragmentation, insecurity of stakeholders and resistance of beneficiaries to new social values	Lack of foreign investment or technology flow
Corruption	Political participation in investment decision-making and lack of regulatory institutions	Ineffective use of development resources
Physical	Circumstances beyond control such as natural disasters, wars, coups, acts of terrorism. Remote location, unfamiliar terrain, rainfall, facilities for transport, health services, accommodation and site amenities.	Lack of foreign investment or technology flow

Source: Kwak, 2003

### *Opportunities*

Whereas risks constitute unfavourable future events, opportunities typically feature favourable future events. The literature review revealed the following opportunities for South African construction companies globalising into Southern Africa.

#### **2.3.9 Funding and Foreign Aid**

Funding may be privately raised, or it may come from budgeted national or provincial funds, or may be development finance. With the increasing limitations of the responsibilities of governments around the world for the provision of education, health and security, funding from government resources is diminishing. The provision of development funding on the other hand, especially in Africa, is increasing with money from the World Bank, African Development Bank and the European Union. They are providing funds to countries for the design and construction of roads, water supply schemes, power supply and other infrastructure projects (Murray, 2000). However one must be wary of donor-associated risks, which ranges from instability in the country to conditionalities of support and shifts in focus.

In developing countries, governments are still the largest employers in the construction industry, and therefore a rise in the government deficit is a direct risk in the construction industry. In some Southern African countries a sizeable part of the debt stock is owed to contractors, material suppliers and consultants



in the construction industry. Due to this kind of risk and uncertainties associated with government payment and budget deficit, some contractors would not attempt to bid for jobs in countries that are mainly financed by government without major international donor support.

South Africa has become a highly valued member of the African Development Bank. Each year, South African companies have access to over US\$6 billion in the form of goods, works and consultancy services to Africa through funding by the major multilateral donor agencies such as the World Bank, International Monetary Fund, USAID, United Nations, African Development Bank and the European Union. The World Bank is disbursing some US\$2,8 billion in sub-Saharan Africa annually, while the African Development Bank's annual work programme stands at about US\$2,5 billion (Thompson, 2000).

Yet, despite South Africa's comparative advantage especially in Africa, South African contractor's "hit rate" for projects remains limited. For example, in 1999, South African suppliers of goods and services accessed only 3% of all African Development Bank funding by source of supply in Africa, despite these advantages and margins of preference granted to African member countries. This is a growing market that needs to be tapped, and Africa needs to take a proactive approach in developing this income stream. Aid agencies source a wide range of products covering the entire spectrum of aid, disaster management and relief, everything from builders' supplies to communications,

engineering solutions, healthcare, security services, shelter, storage tanks, transport facilities, water and sanitation treatment, etc. (Runge, 2002).

Twenty-one of the world's thirty poorest countries are in sub-Saharan Africa. Nearly half the regions people live in absolute poverty. USAID programs to strengthen economic institutions, promote private sector initiative, and support micro-enterprise development contribute to broad based economic growth. Other USAID programs contribute to this goal by encouraging stability and the rule of law through good governance and democracy, and by promoting smaller families and a healthier, better-educated workforce ([www.usaid.gov](http://www.usaid.gov), 29-01-2003).

Sub-Saharan African debt nearly quadrupled from 1980 to 1998. External debt as a share of GDP nearly tripled, peaking at 71% of GDP in 1994. Economic reforms since 1990's have increased average GDP growth rates for Africa as a whole. Rescheduling and debt forgiveness by many countries, reduced the external debt ratio to roughly 68% of GDP in 1998 ([www.usaid.gov](http://www.usaid.gov), 29-01-2003).

### **2.3.10 Information Technology and Management Capability**

Technologically speaking, the previous era of globalisation was built around falling transportation costs. Today's era is built on falling telecommunications cost resulting from the development of the microchip, fibre optics, satellites and the internet.

Amongst the issues that have been driving change is an upsurge of technology including information technology. Global telephone, satellite communications and video links are now widely available. Information and communication technology is significantly influencing technological change. The internet commerce revolution could transform organisations and organisational process and create new opportunities and challenges for international marketers (Shakantu 2002).

The uptake of information technology has been slow in Southern African countries, thus giving South African contractors an opportunity to exploit the market. With the use of internet, a considerable amount of the contract administration could be done at the home base and issued via the internet to the foreign customer country. The growing trend of information technology is likely to make physical movement less relevant in the future, and firms can hire workers who reside overseas or in remote locations.

Information technology facilitates business transactions in a speed and manner unprecedented in history. The information economy provides new ways of communicating such as:

- ◆ South Africa has relatively well-established legal and institutional structures that make it a safe and supportive environment for e-commerce

- ◆ South Africa has a world-class telecommunications network. However, the trading counter parts in Southern Africa may not be as reliable if the sites are in remote locations
- ◆ Well-educated and highly skilled people have a tradition of rapid technology uptake

South African construction companies are concentrating more on management of construction projects rather than the actual construction. There is a visible shift from a traditional procurement system towards a management contracting service. Management of technical skills are easier to export than labour and machinery. Shor (2000), found that the perception is that South African construction companies' technical and managerial skills are internationally competitive. These companies should follow the Japanese example by offering technical and managerial skills to its neighbouring countries. It is important that South Africa lead by developing technological research.

### **2.3.11 Associations and Joint Ventures**

South African construction companies could associate with other experienced contractors or else form joint ventures for specific projects. A contractor might anticipate gaining overseas experience by working on subcontracts let by other main contractors. A contractor determined to work over its own border could initiate a subsidiary and build up a reputation on smaller contracts. Companies could also build a reputation on the types of domestic work that he specialises

in. Then again, companies could also venture into areas where international competitors are equally inexperienced. The numerous routes available to the contractor suggest that opportunities in the international market are not confined to large experienced firms.

### **2.3.12 Advance Payments (A Method to Minimise Certain Political Risks)**

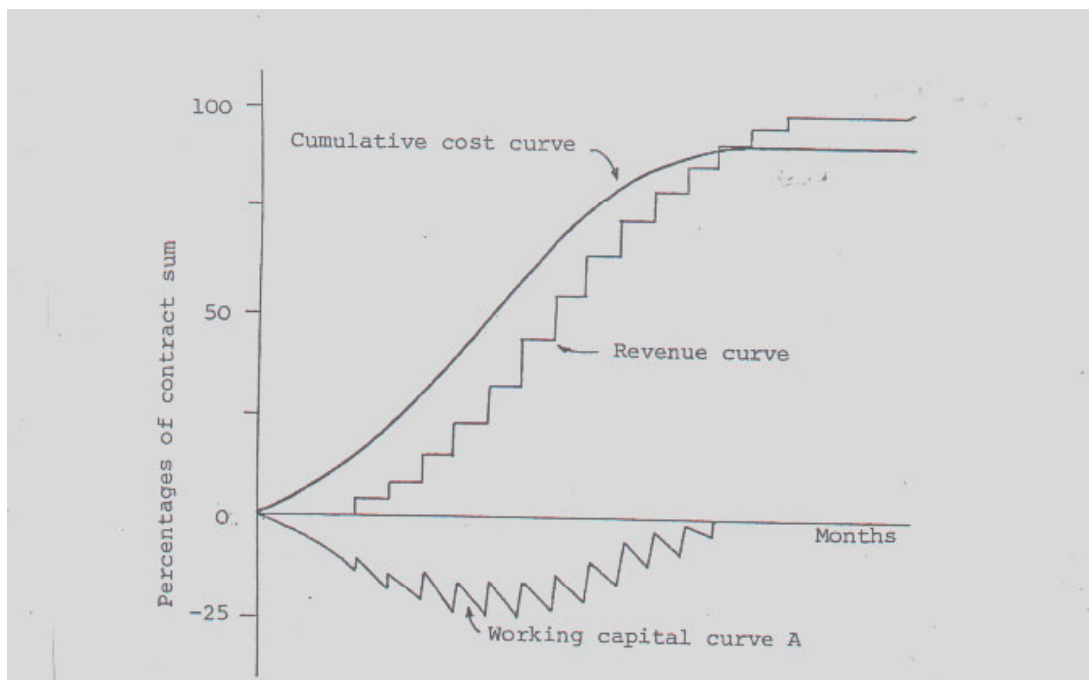
(Bah Neo, 1975)

Working capital (bridging finance) is the amount where the revenue curve fall below the cumulative cost curve. It demarcates the extent of the contractor's liability. Curve A in Figure 2.3.1 illustrates the working capital for a typical domestic contract with normal terms of payment. An international contract often involves a greater number of cost items contributing towards the total cost of a project. A typical list of such items will consist of pre-contract expenditure for the cost incurred in travel, negotiating and tendering, insurance premiums, expenses for site establishment, mobilising of plant, labour, material, sub-contractors, site salaries and international overheads. Other incidental costs may include additional handling or freight charges and loss of purchases if import licences are cancelled.

It is not unusual for contractors to expect better terms of payment to be negotiated with foreign employers, thus reducing the working capital requirement and perhaps even making the contract self-financing. Terms of payment would of course, vary from contract to contract, ranging from 10% down payment, 80%

on interim valuations, 5% on completion and 5% at the end of the maintenance period. The impact of favourable terms of payment can be considerable. This is illustrated by comparing Figures 2.3.1 to 2.3.2

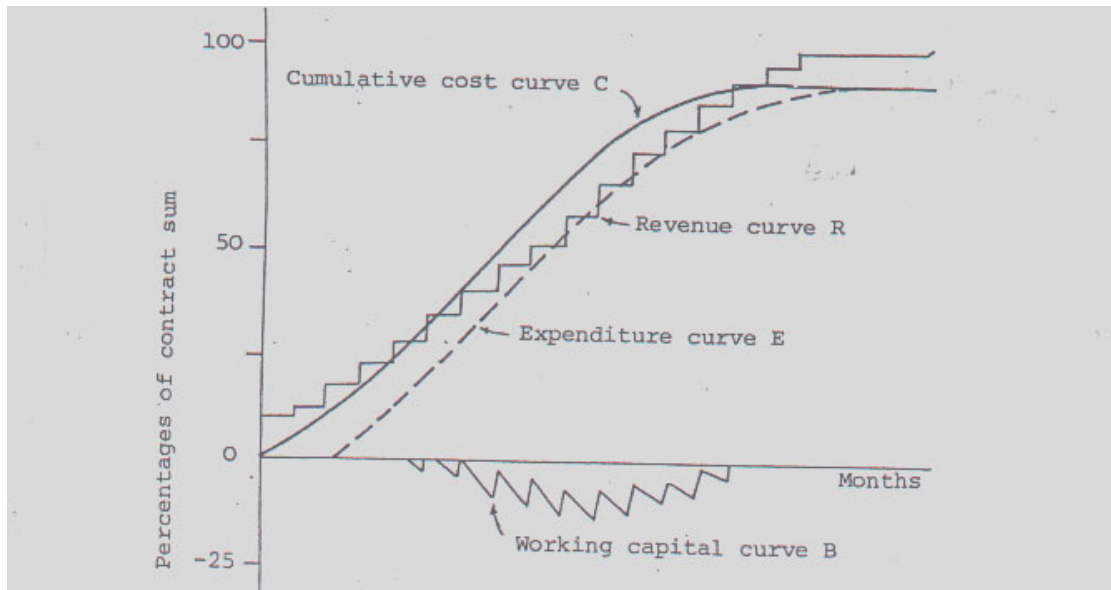
Figure 2.3.1: Cash Flow for Domestic Contracting



Source: Bah Neo, 1975

*Working capital is that amount where the cumulative revenue curve falls below the cumulative cost curve. Curve A shows working capital needed for a typical domestic contract with normal terms of payment*

Figure 2.3.2: Cash Flow For International Contracting With Advance Payments

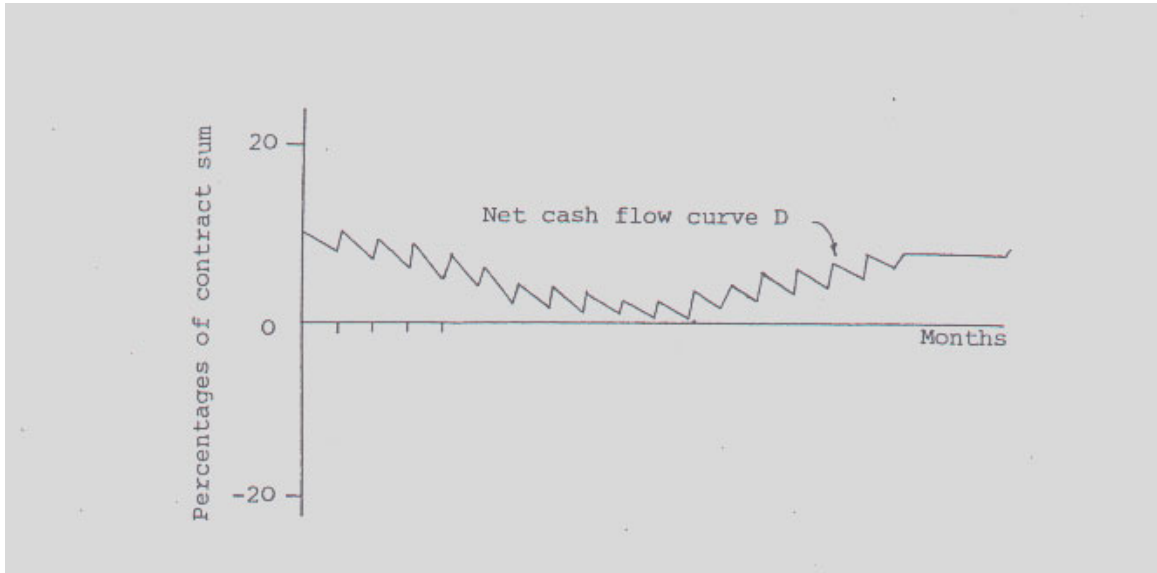


Source: Bah Neo, 1975

*Curve B represents the working capital needed for a typical international contract with a 10% advance payment*

Contractors do not normally pay cash for costs incurred on a contract. Major cost items such as materials, plant and subcontractors are procured with credit terms of up to two months. Thus the expenditure curve is represented by a line tailing behind the cumulative cost curve as shown in Figure 2.3.2. The net cumulative cash flow is thus depicted by curve D in Figure 2.3.3.

*Figure 2.3.3: Net Cash Flow for International Contracting with Advance Payments*

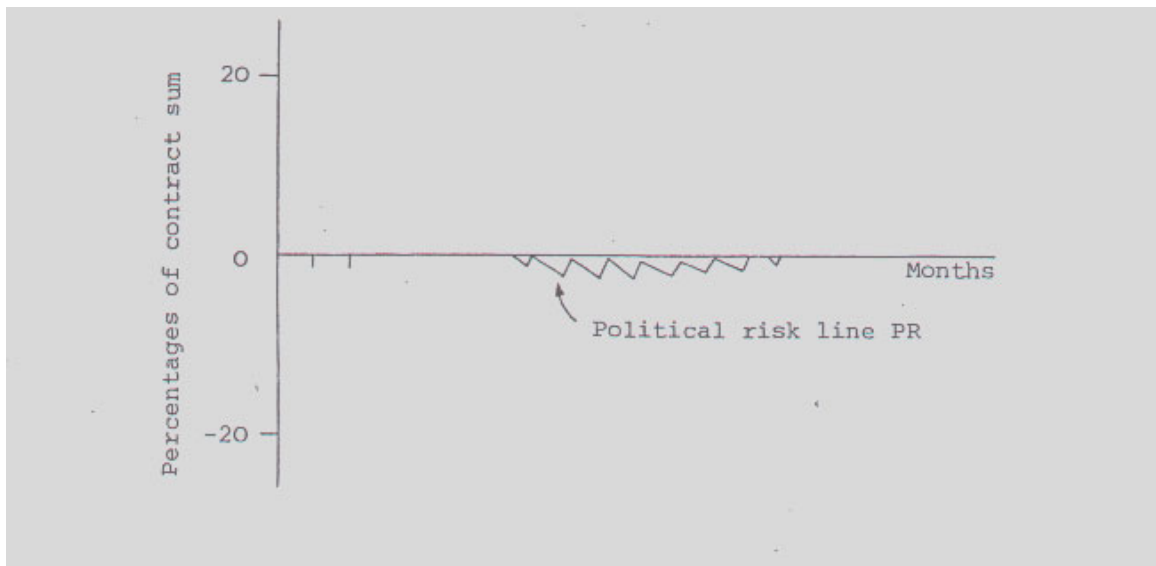


*Source: Bah Neo, 1975*

*Curve D represents the shape of the cash flow curve of a typical contract with advance payment terms*



Figure 2.3.4: Political Risk Line



Source: Bah Neo, 1975

*Political risk line “PR” represents the limits of possible losses resulting from political risks.*

It is assumed that the contract is smooth running, sustaining no major losses and culminating into a net profit at completion. Curve D in Figure 2.3.4 indicates that no cash is required from the contractor for the entire duration of the contract. However, the above should be in perspective with whether the employer will maintain prompt payments. Should the employer not promptly honour interim payment certificates curve D will dip a little and fall below the zero line, thus requiring cash input from the contractor for brief periods. A prudent contractor will not normally meet the intermittent negative cash flow through a capital transfer from head office but will, most certainly, local legislation permitting,

arrange overdraft facilities with a local bank. Reputable firms should have no difficulty making such arrangements.

Having examined the working capital requirement, one may view political risks with less trepidation. The question is what would a contractor stand to lose in the event of a political event? His surplus cash flow may be frozen and may never be recovered. This amounts to wiping out of a possible profit. Possible losses are limited to the extent of working capital committed.

### **2.3.13 General Opportunities**

In addition to the opportunities discussed, the following factors also impact on the favourableness of globalisation into the selected SADC countries

- ◆ Recommendation of South African contractors by South African professionals involved conducting business internationally: South African consultants have over the years earned themselves a high reputation amongst foreigners and may also open a door in the foreign countries for their local contracting companies whom they are used to working with in South Africa. For example Mike O'Malley of Stauch Vorster Architects stated that successful completion of the Zimbabwe contracts brought work from Botswana, Mozambique, Zambia and Tanzania, in league with construction company Murray and Roberts (Honey, 2003). In addition Murray and Roberts also ally with Lillicrap Crutchfield Engineers to develop business incentives in the Middle East

- ◆ South African construction companies are the best regional competitors: Contracting companies from developing countries are less probable to expand and thus makes South African construction companies the best regional competitor. However, the developing world is an important market for international contractors and South African contractors must be weary of international competitors
- ◆ Experience: If South African companies globalise prior to the other regional competitors their international experience of work on a similar scale, past performances, capabilities with respect to qualified personnel, equipment and plant and their company's financial status will count positively towards them being awarded contracts in the SADC region
- ◆ Construction contributes significantly to a country's development: Construction is fundamental to development and thus the potential for construction in these developing SADC countries is immense. Some of the construction activities to support rapid development desired by this sector would require a level of technology and managerial expertise possessed only by the more advanced country such as South Africa. Judging by their past performance and their resourcefulness, South African contractors will be able to meet this challenge and thus contribute to this development
- ◆ Close proximity: It appears that geographical distance of the works is not a constraint when a firm considers bidding abroad. As long as a job requires transport across a country's border, it will necessitate documentation, freight and insurance charges, whether the site is one or ten thousand miles away

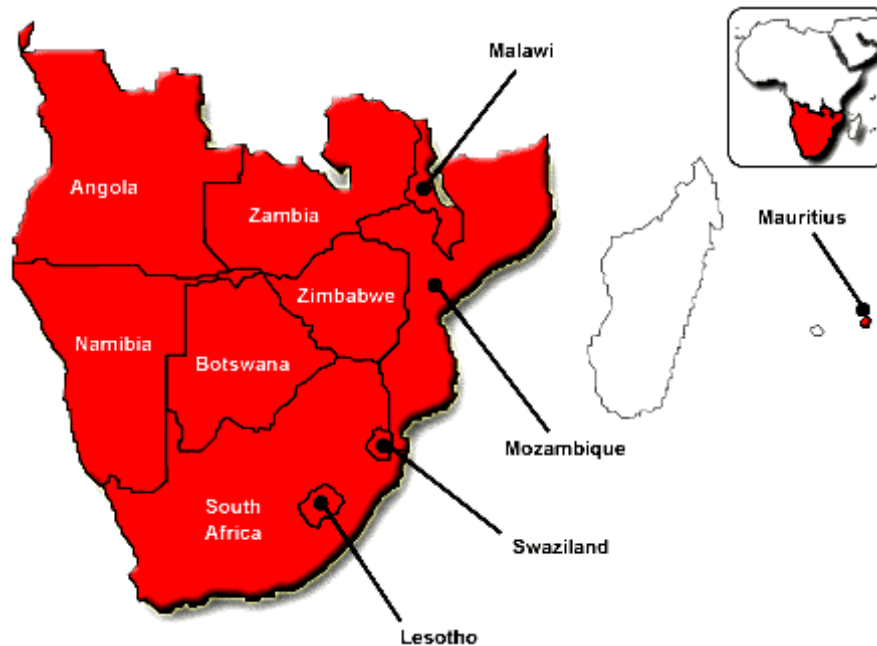
- ◆ Selected SADC countries rich in natural resources which have spin-offs for the construction industry: Contractors have their preferences in the choice of international markets; one of these is countries rich in natural resources. These countries offer opportunities in the exploitation of minerals, etc and would thus demand expansion of infrastructure. In addition, revenue generated by sale of the natural resources support construction work associated with building an industrial economy in addition to development programmes in housing, health, transport and education
- ◆ Marketing opportunities: Globalisation brings along new marketing possibilities by accessing new markets, leading to future profits (once the learning curve is favourable). Ground is gained on the opposition and one's own share of the general market is increased (Basson, 2001)
- ◆ Improved company image: Construction companies can gain an improved image in the market. A company that has established itself in a new market may become a market leader and will be able to present an improved *curriculum vitae* for future work. Quality personnel can be recruited due to the enhanced image. Further more it could be a base for future growth (Basson, 2001)
- ◆ Technological benefits: A spin-off of globalisation is that new types of work enforce the use of new technologies or research and development work. This may lead to new expertise and / or patents being developed (Basson, 2001)
- ◆ Stimulation and motivation of personnel: Challenging work, new expertise and experience, and being part of an aggressive company could also

motivate personnel and stimulates the culture of the company (Basson, 2001)

- ◆ Hedge against South Africa's cyclical economy: As CEO of Group Five, Mike Lomas, says that they decided to expand into the global market due to depressed local markets, amongst other reasons. Globalisation can help alleviate the cyclical economic impact of South African construction on the companies turnover / profit

## 2.4 The Current Status of Selected SADC Countries

This study concentrates on selected SADC countries in Southern Africa, namely; Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.



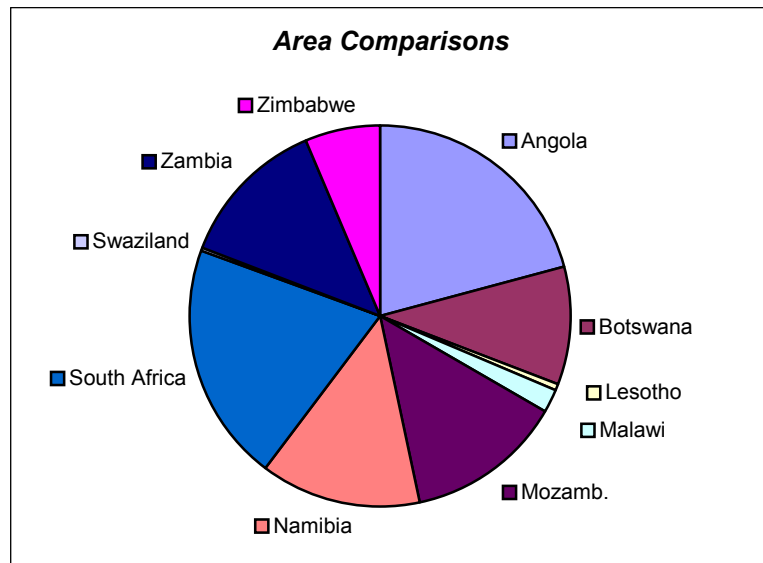
These countries, including South Africa, cover an area of approximately 6 million square kilometres with approximately 113 million inhabitants. Combined, the countries had a total GDP of US\$181,04 billion in 1995 compared to an 8,6% decrease to US\$165,39 billion in 1999. The data per country is depicted in Table 2.4.1 and graphically illustrated in Figures 2.4.1, 2.4.2 and 2.4.3

*Table 2.4.1: Area, Population and GDP per Country*

<b>Country</b>	<b>Area (sq.km) Thousand 000</b>	<b>Population (Estimate July 2002) (Million) 000 000</b>	<b>Persons / km<sup>2</sup></b>	<b>GDP 1995 (Million US\$) 000 000</b>	<b>GDP 1999 (Million US\$) 000 000</b>
Angola	1,247	10.593	8.50	5,187	8,545
Botswana	600	1.591	2.65	4,899	5,996
Lesotho	30	2.208	72.74	933	874
Malawi	118	10.702	90.33	1,429	1,810
Mozambique	802	19.608	24.46	2,392	3,979
Namibia	825	1.821	2.21	3,224	3,075
South Africa	1,220	43.648	35.78	151,113	131,127
Swaziland	17	1.124	64.71	1,267	1,223
Zambia	753	9.959	13.23	3,471	3,150
Zimbabwe	391	11.377	29.13	7,120	5,608
<b>Total</b>	<b>6,003</b>	<b>112.631</b>		<b>181,035</b>	<b>165,387</b>

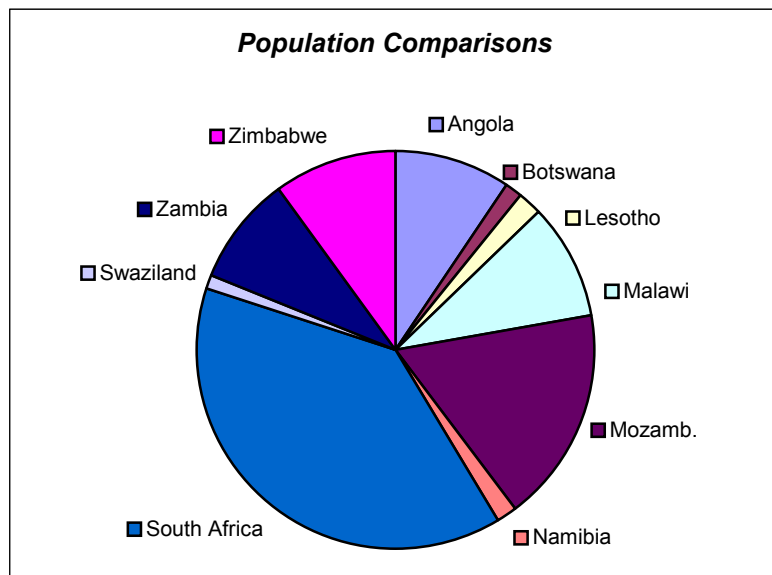
*Source: Data adapted from "The World Factbook 2002" relating to area and population and World Development Bank Database indicators for GDP*

Figure 2.4.1: Country Area Comparisons



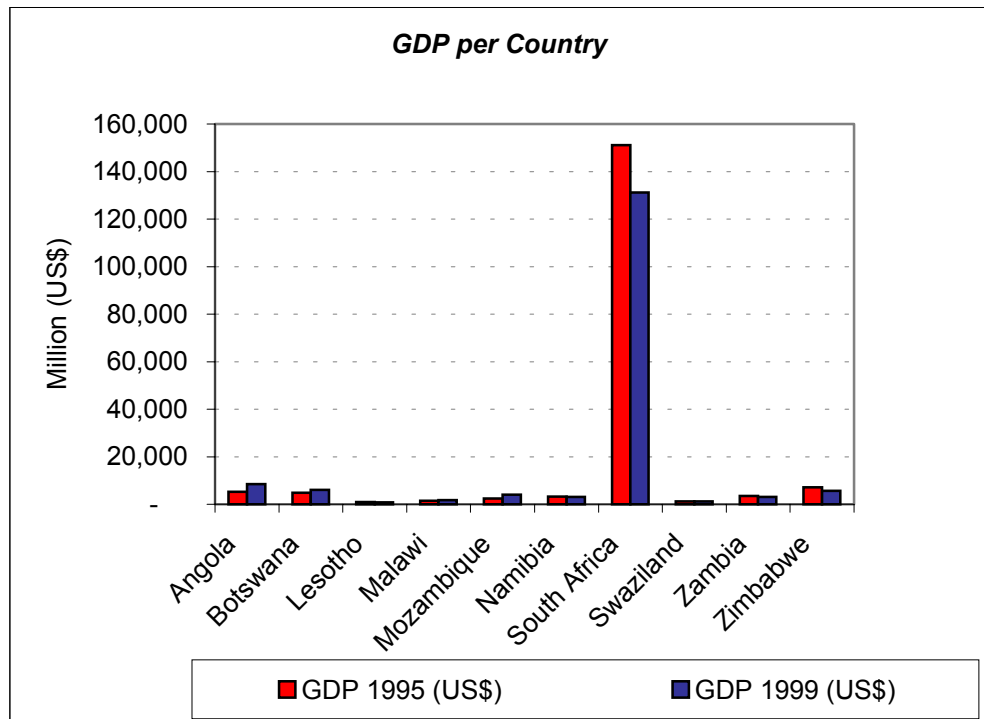
Source: Data adapted from "The World Factbook 2002" relating to area and population and World Development Bank Database indicators for GDP

Figure 2.4.2: Country Population Comparisons



Source: Data adapted from "The World Factbook 2002" relating to area and population and World Development Bank Database indicators for GDP

Figure 2.4.3: GDP per Country

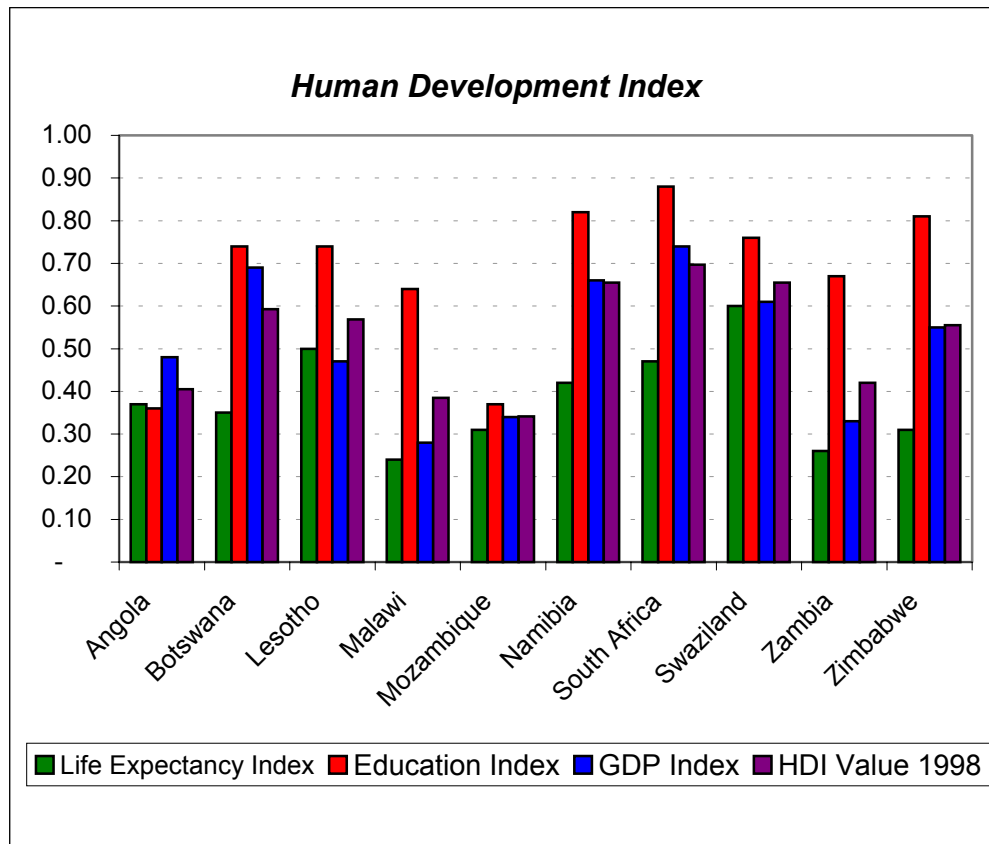


Source: Data adapted from "The World Factbook 2002" relating to area and population and World Development Bank Database indicators for GDP

Sub Saharan Africa is viewed as one of the world's poorest and most under-developed regions. The Human Development Report, 2000 ([www.acdi-cida.gc.ca](http://www.acdi-cida.gc.ca) 03-02-2003) rates Southern African countries as medium to low human development as illustrated in Figure 2.4.4



Figure 2.4.4: Human Development Index per Country



Source: Human Development Report Office, adapted data from “Human Development Report 2000” UN.

**Notes:** The Human Development Index (HDI) is based on three indicators:

- ◆ Longevity, as measured by life expectancy at birth
- ◆ Educational attainment, as measured by a combination of adult literacy (2/3 weight) and the combined gross primary, secondary and tertiary enrolment (1/3 weight)
- ◆ Standard of Living, as measured by real GDP per Capita

Apart from South Africa, none of the countries rate in the top 120 countries out of 173 countries relating to Human Development as illustrated in Table 2.4.2. Life

expectancy in the selected SADC countries is as low as 39 and not more than 50% of the population are urbanised.

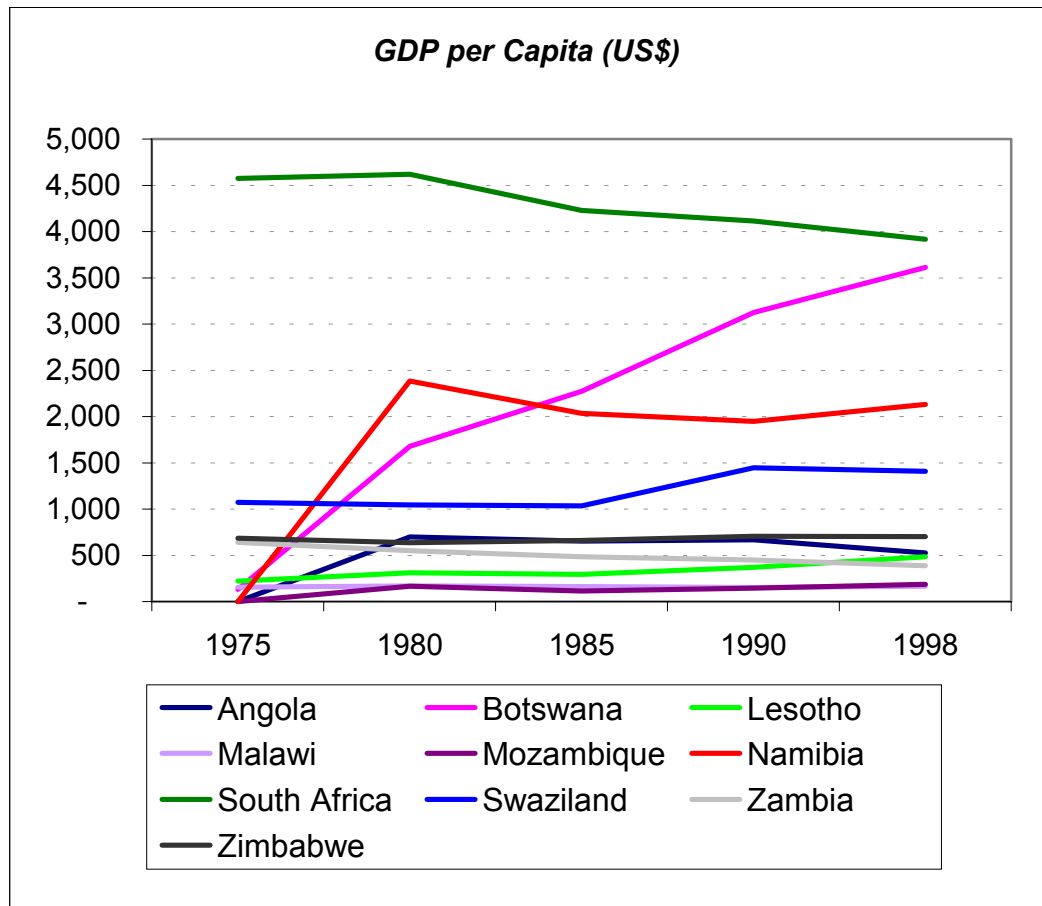
*Table 2.4.2: HDI, Life Expectancy, Urban Population and Adult Literacy Rates*

<b>Country</b>	<b>Human Development Index Ranking out of 173 countries</b>	<b>Life Expectancy</b>	<b>Urban Population</b>	<b>Adult Literacy Rate</b>
Angola	161	45	34%	42%
Botswana	126	40	50%	77%
Lesotho	132	46	28%	83%
Malawi	137	40	25%	60%
Mozambique	170	39	40%	44%
Namibia	122	45	31%	82%
South Africa	107	52	50%	85%
Swaziland	125	44	26%	80%
Zambia	153	41	40%	78%
Zimbabwe	128	43	35%	89%
<b>Average</b>	<b>136</b>	<b>43,5</b>	<b>35,9%</b>	<b>72%</b>

*Source: Canadian International Development Agency – 2000 statistics (adapted)*

GDP per capita is a reliable illustrator of the standard of living in a particular country. The graph in Figure 2.4.5 is an illustration of the poor standard of living in the selected SADC countries in this study with very few prosperous trends.

Figure 2.4.5: GDP per Capita Trend 1975- 1998



Source: Human Development Report Office, data adapted from “Human Development Report 2000” UN.

Southern African countries are rich in natural resources. These resources, as illustrated in Table 2.4.3, if correctly exploited and managed, have the potential to create healthy economies including implications for construction.

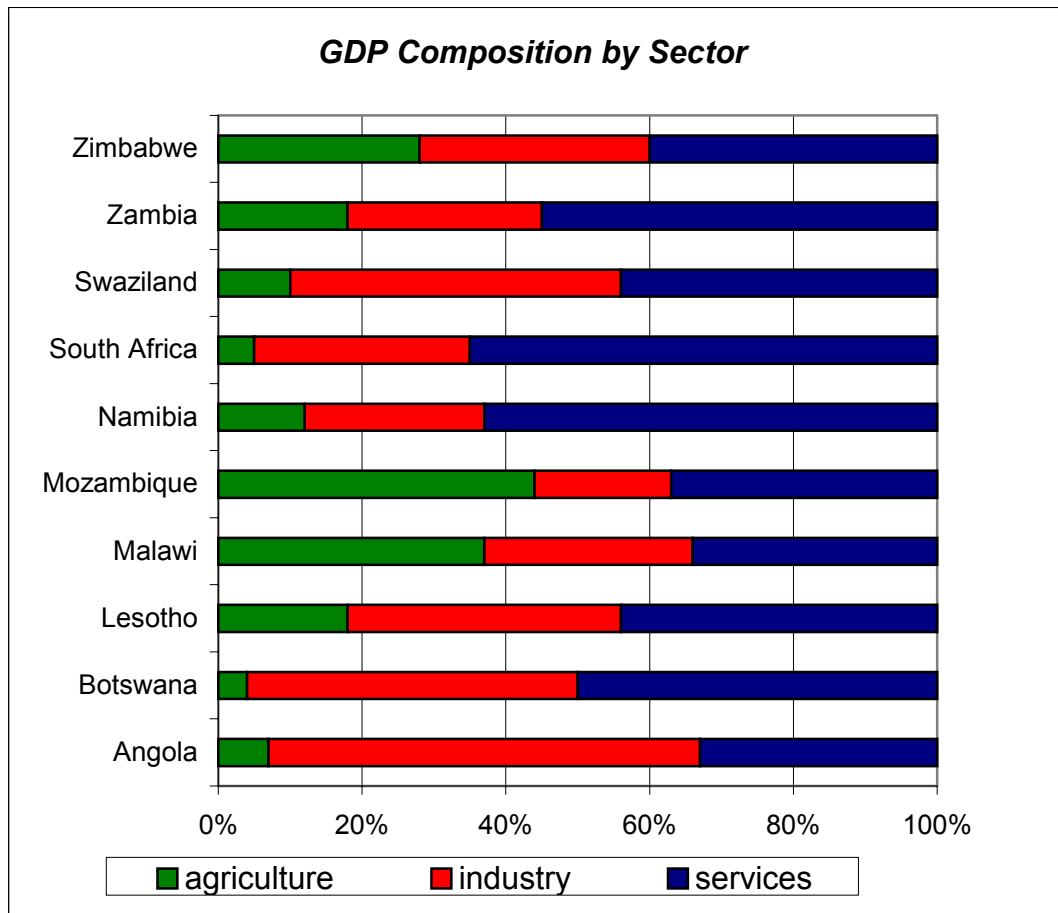
Table 2.4.3: Natural Resources per Country

<b>Country</b>	<b>Natural Resources</b>
Angola	Petroleum, diamonds, iron ore, phosphates, copper, feldspar, gold, bauxite, uranium
Botswana	Diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver
Lesotho	Water, agricultural and grazing land, some diamonds and other minerals
Malawi	Limestone, arable land, hydropower, unexploited deposits of uranium, coal and bauxite
Mozambique	Coal, titanium, natural gas, hydropower, tantalum, graphite
Namibia	Diamonds, copper, uranium, gold, lead, tin, lithium, cadmium, zinc, salt, vanadium, natural gas, hydropower, fish and suspected deposits of oil, coal and iron ore.
South Africa	Gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, uranium, gem diamonds, platinum, copper, vanadium, salt, natural gas.
Swaziland	Asbestos, coal, clay, cassiterite, hydropower, forest, small gold and diamond deposits, quarry stone and talc
Zambia	Copper, cobalt, zinc, lead, coal, emeralds, gold, silver, uranium, hydropower
Zimbabwe	Coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin, platinum group metals

Source: "The World Factbook 2000"

The composition of GDP by sector is depicted in Figure 2.4.6

Figure 2.4.6: GDP Composition by Sector per Country



Source: Data adapted from World Factbook 2001

Construction is a major employer accounting for approximately 2% to 6% of the total labour force and is responsible for 3% to 5% of the GDP in developing countries (Lopes, 2000)

For the countries analysed in this treatise, construction as a percentage of GDP ranges from 1.7% to 7.6%, during the period 1993 to 1998, excluding Lesotho.

These percentages per country are reflected in Table 2.4.4. Lesotho's construction, as a percentage of GDP, has been phenomenal during 1993 to 1998, ranging from 16.2% to 20.4% over the period 1993 to 1998, primarily due to the construction of the Lesotho Highlands Water Project.

*Table 2.4.4: Construction as a Percentage of GDP*

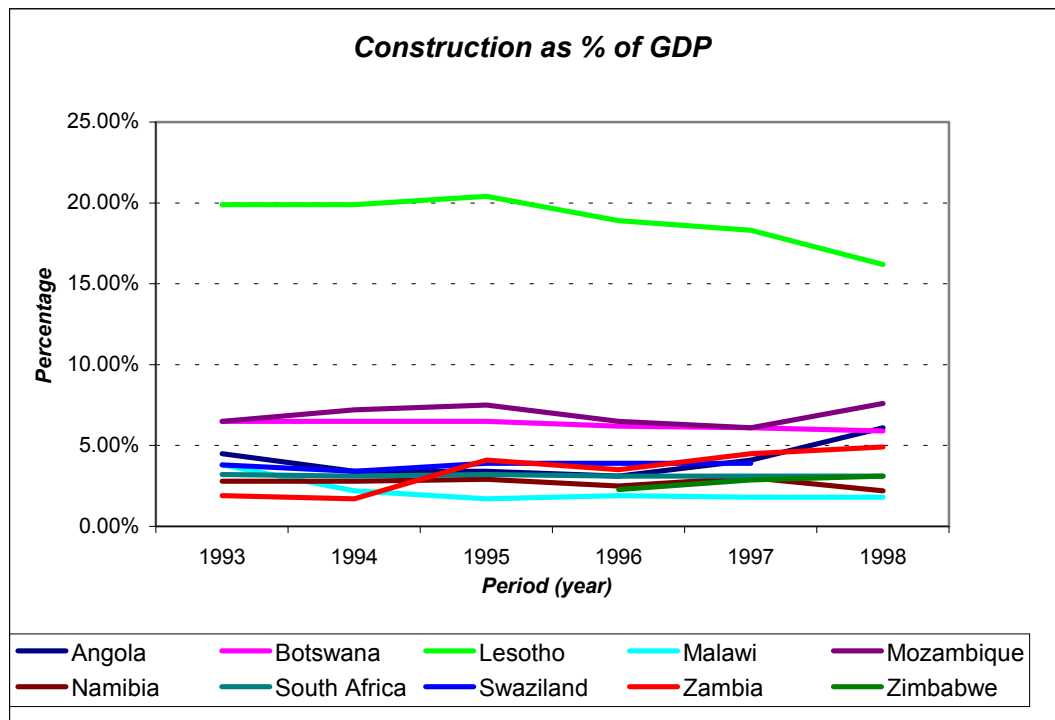
<b>Country</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Angola	4.50%	3.40%	3.40%	3.10%	4.10%	6.10%
Botswana	6.50%	6.50%	6.50%	6.20%	6.10%	5.90%
Lesotho	19.90%	19.90%	20.40%	18.90%	18.30%	16.20%
Malawi	3.80%	2.20%	1.70%	1.90%	1.80%	1.80%
Mozambique	6.50%	7.20%	7.50%	6.50%	6.10%	7.60%
Namibia	2.80%	2.80%	2.90%	2.50%	3.00%	2.20%
South Africa	3.20%	3.10%	3.20%	3.10%	3.10%	3.10%
Swaziland	3.80%	3.40%	3.90%	3.90%	3.90%	
Zambia	1.90%	1.70%	4.10%	3.50%	4.50%	4.90%
Zimbabwe				2.27%	2.87%	3.11%

*Source: Data adapted from [www.sadcbankers/projects/stats](http://www.sadcbankers/projects/stats)*

On average, apart from Botswana, Lesotho and Mozambique, construction for the remainder of the countries, including South Africa, contribute less than 5% to the country's GDP. However, Angola and Zambia illustrate promising trends of

achieving and exceeding the 5% contribution of construction to GDP. The information in Table 2.4.4 is presented graphically in Figure 2.4.7

Figure 2.4.7: Construction As A Percentage Of GDP



Source: Data adapted from [www.sadcbankers/projects/stats](http://www.sadcbankers/projects/stats)

Lopes (2000) argues that the relationship between share of construction in GDP and GDP per capita seems to be consistent only with a downturn in the economy. Additionally, there is a minimum required level of investment in construction in the developing countries, measured in terms of construction value added (CVA), as a percentage of GDP in order to achieve, in the long-term, sustainable growth in the economy. Thus there is a critical band (the share

of CVA in the 4-5% band) below which a relative decrease in construction volume corresponds directly to a decreasing growth in GDP per capita. The converse, however, is not true. That is, above the band, a sustained or increasing growth in the GDP per capita may not correspond to a relative increase in construction volume. Lopes' (2000) study was based on data on 15 countries (including all those evaluated in this treatise, except for Lesotho) for a twenty-two year period and the sample was split in two groups; one in which the GDP per capita is rising and the other in which the GDP per capita is falling.

Machinery and equipment investment have a strong association with economic growth. In the aftermath of the 1980 oil-shock and the international financial crises, most sub-Saharan African countries have been experiencing long-term decreasing growth (Lopes, 2000).

The construction sector plays an important role in the development strategy of any country. Many writers have referred to its effect of employment creation, others to its multiplier effects on the economy.

Inflation and interest rates have a huge impact on the level of investment. Real estate investment is particularly sensitive to the interest rates. It is well known that inflation erodes the real value of money.



Inflation rates for the selected countries range from 6% to 325% based on 2000 estimates, whereas interest rates range from 15.95% to 98.48% during the periods November 2002 to February 2003. The data is depicted in Table 2.4.5

*Table 2.4.5: Inflation Rates and Interest Rates per Country*

<b>Country</b>	<b>Inflation Rates</b>	<b>Interest Rates</b>
Angola	325.0%	98.48%
Botswana	8.6%	16.75%
Lesotho	6.0%	17.66%
Malawi	29.5%	41.00%
Mozambique	11.4%	24.50%
Namibia	9.1%	17.50%
Swaziland	6.4%	16.50%
Zambia	27.3%	53.30%
Zimbabwe	200%	37.50%

*Source: Inflation rates 2000 estimates [www.geographyiq.com](http://www.geographyiq.com) 25-02-2003*

*Interest rates for period November 2002 and February 2003 provided by Stanbic*

## **2.5 The Analysis of Selected SADC Countries in terms of Risks and Opportunities**

The treatise by Bredenkamp (1997), titled “The Potential Role of South Africa in the Construction Industry of Southern Africa” evaluated the ability of each of the countries belonging to the SADC region in terms of: economic development, education, infrastructure, foreign aid and investment and construction.

The review below distinguishes the risks and opportunities identifiable from Bredenkamp’s treatise. In addition, a review of other, more recent, literature relating to those countries is also included. To distinguish between the review of Bredenkamp’s treatise and other literature, the items reviewed from Bredenkamp’s treatise have been italicised below.

The country profile data below has been abstracted from the figures and tables presented earlier. In addition the data on: climate, language, labour force, unemployment rate, currency, GDP real growth rate, inflation rate (consumer), external debt, economic aid recipient and HIV/AIDS prevalence rate were abstracted from [www.geographyiq.com](http://www.geographyiq.com) 25-02-2003. Interest rates were provided courtesy of Stanbic (a branch of Standard Bank) upon special request. Other information has been added with the source of information listed next to the information.

### 2.5.1 ANGOLA

Angola is an independent republic. It is bound north and northeast by the Democratic Republic of Congo (formerly Zaire) and by Zambia, on the south by Namibia and on the west by the Atlantic Ocean.



- Geographical Area: 1 246 700 square kilometres
- Climate: Semiarid in the south and along the coast to Luanda. North has cool, dry season (May to Oct) and hot rainy season (Nov to April)
- Natural Resources: Petroleum, diamonds, iron ore, phosphates, copper, feldspar, gold, uranium
- Language: Portuguese is the official language
- Population (2002): 10.6 million

Labour Force (1997):	5 million
Unemployment Rate (2000):	Extensive unemployment and underemployment affecting more than half the population
Currency:	Kwanza
GDP (1999):	US\$ 8,545 billion
GDP Composition by Sector:	◆ Agriculture: 7% ◆ Industry: 60% ◆ Services: 33%
GDP Real Growth Rate:	4.9% (2000 estimate)
Inflation Rate:	325% (2000 estimate)
Interest Rate:	98.48% (end Nov 2002) Stanbic
HDI Value (1998):	0.405 (Low Human Development)
HDI Ranking (2000):	161 out of 173 countries
Life Expectancy (2000):	45 years
Urban population (2000):	34%
Literacy Rate (2000):	42% amongst adults
HIV/ AIDS:	Statistics not available
External Debt:	US\$10.8 billion (2000 estimate)
Economic Aid Recipient:	US\$493.1 million (1995)

Angola is an economy in disarray because of a quarter century of nearly continuous warfare. Despite its abundant natural resources, output is amongst the world's lowest. Violence continues and millions of landmines remain.

For its economy to take a new turn, amongst other moves, Angola will need to end its conflict and continue reforming governments policies. Despite the increase in warfare during 1998, the economy grew by an estimated 5% in 2000 ([www.geographyiq.com](http://www.geographyiq.com) - 2003-02-25). Continued growth depends on sharp cuts in inflation, further economic reform and a lessening of fighting.

Risks:

- 1 *Fighting since independence has caused serious damage to basic infrastructure. On the other hand, an opportunity exists to upgrade the existing infrastructure, provided funding is received. There have also been periodic shortages of electricity, but due to maintenance problems rather than to a shortage of capacity*
- 2 *The pace of reconstruction is constrained by the government's low existing revenue base: Approximately US\$2 billion is required to replace the country's infrastructure*
- 3 *Until the collapse of oil prices in 1986, Angola was considered to be an acceptable risk country, which always honoured commitments. Since that time, debt service obligations have increased. Funding has become a greater concern*
- 4 *Due to the shortage of funds education, training of personnel and purchasing of equipment has suffered*
- 5 *There are acute shortages of building materials, especially cement, which has limited construction mostly to unconventional buildings*

- 6 Both electricity and water services are sporadic. In addition, conditions in most sectors, including transport, sanitation, communication and health are poor ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26)
- 7 Amongst Angola's main imports are spare parts, machinery and appliances. This does have serious consequences on construction programmes affected by breakdowns and / or replacement of plant and equipment ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26)
- 8 CGIC does not offer insurance to South African companies exporting to Angola for reasons such as ongoing political turmoil, shortage of foreign exchange, weak economy and poor institutional infrastructure (legal, banking, information, etc) ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26). In fact, Standard Corporate and Merchant Bank recommends that payment terms should be cash in advance
- 9 *Angola's population is of considerable ethnic diversity*
- 10 When Murray and Roberts built a 400m oil quay for Angola's Luanda harbour, it was too expensive to build in the war – wrecked country so the company precast the concrete slabs in Saldanha Bay and shipped 300t to Luanda (Honey, 2003)
- 11 Public transportation is limited ([www.geographyiq.com](http://www.geographyiq.com) - 2003- 02-25)

Opportunities:

- 1 Government actively encourages joint ventures between foreign and Angolan enterprises. *A foreign investment law has been introduced, offering tax concessions and permitting repatriation of funds*
- 2 Huge potential exists in the upgrading and restoration of existing buildings, *as the maintenance of buildings is poor*
- 3 *Illiteracy is a major concern.* This implies lots of semi-skilled and unskilled labour at very compatible rates
- 4 *If peace prevails, the slow process of rehabilitation can continue and its potential can be exploited, creating vast opportunities in the construction industry*
- 5 A considerable need for low cost housing exists
- 6 *Angola joined the International Monetary Fund in order to take advantage of western financial assistance for an economic reform programme*
- 7 A need for housing exists. Group Five worked on the Nova Vida contract at Luanda. The challenge was to complete 2 448 residential units to house the Angolan military and civil works personnel (Construction World, July 2002). Group Five secured the US\$80 million housing contract
- 8 The overhaul of the telecommunications industry and infrastructure is planned ([www.scmb.co.za](http://www.scmb.co.za) - 2003-02-26)

## 2.5.2 BOTSWANA

Botswana is a landlocked state in Southern Africa. It is bordered by Namibia to the west and north, South Africa on the south and Zimbabwe to the northwest.



Geographical Area:	600 000 square kilometres
Climate:	Semiarid, warm winters and hot summers
Natural Resources:	Diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver
Language:	English is the official language
Population (2002):	1.6 million
Labour Force:	235 thousand formal sector employees (1995)
Unemployment Rate (2000):	Officially 19% but unofficial estimates place it closer to 40%



Currency:	Pula and Thebe
GDP (1999):	US\$ 5.996 billion
GDP Composition by Sector:	◆ Agriculture: 4%
	◆ Industry: 46%
	◆ Services: 50%
GDP Real Growth Rate:	6% (2000 estimate)
Inflation Rate:	8.6% (2000 estimate)
Interest Rate:	16.75% (Feb 2003) Stanbic
HDI Value (1998):	0.593 (Medium Human Development)
HDI Ranking (2000):	126 out of 173 countries
Life Expectancy (2000):	40 years
Urban population (2000):	50%
Literacy Rate (2000):	77% amongst adults
HIV/ AIDS:	35.80% adult prevalence rate (Highest in the world)
External Debt:	US\$455 million (2000 estimate)
Economic Aid Recipient:	US\$73 million (1995)

Botswana has maintained one of the world's highest growth rates since independence in 1966. Through fiscal discipline and sound management, Botswana has transformed itself from one of the poorest countries in the world to a middle-income country with a GDP of US\$6600 in 2000 ([www.geographyiq.com](http://www.geographyiq.com) 2003-02-25).

The country's relationship with Namibia has been strained due to border dispute and Botswana's support to the secessionists from the Namibian Caprivi region. The border dispute has now been resolved through the intervention of the World Court, which awarded the Sedudu Island to Botswana. President Mogae has also expressed concern on the possible national implications of the current crises in Zimbabwe ([www.ilo.org](http://www.ilo.org) 2003-01-31).

Risks:

- 1 Competitors from countries other than South Africa have already entered the market. *Roads, bridges and residential buildings have already been constructed by an Italian firm (US\$69 million) and by a Chinese firm (US\$23 million). A French company was awarded a US\$322 airbase contract. Chinese construction companies using inexpensive Chinese labour dominate the construction industry*
- 2 *Botswana's economy is relatively undiversified, with the result that variations in the mineral prices could result in a deterioration of export trade and therefore the economy*
- 3 The country is landlocked and thus dependent on neighbouring countries in order to access markets and therefore vulnerable to external factors
- 4 The Botswana Housing Corporation (BHC) saga resulted in allegations of corruption and fraudulent dealings. BHC was a significant player in the industry. Following these allegations, many construction projects were disrupted or cancelled (Palalini, 2000)

- 5 Border posts have very limited storage facilities, and most goods are stored by agents that have adequate facilities, including bonded warehouses ([www.scmb.co.za](http://www.scmb.co.za) -2002-02-26)

Opportunities:

- 1 *Botswana's urbanisation rate is the highest in sub-Saharan Africa. This will inevitably go hand in hand with acute housing shortages, waste management and water reticulation*
- 2 The economy has expanded considerably over the past 15 years. Botswana is the second largest producer of diamonds in the world
- 3 *Its road network on the eastern side of the country, where most economic activity takes place, is fairly well developed*
- 4 *Considerable cross border activity with South Africa is well under way. A significant number of consultants and construction companies have already established offices in Botswana*
- 5 Government does invite international tenderers for large projects (Palalni, 2000)
- 6 *The growth of tourism has had a positive effect on the construction industry.* Tourism is one of the key sectors that contribute to the GDP ([www.scmb.co.za](http://www.scmb.co.za) -2002-02-26)
- 7 Botswana's light industrial sector has enormous potential for growth with implications for factory and warehouse buildings ([www.scmb.co.za](http://www.scmb.co.za) -2002-02-26)

- 8 Botswana's second largest export sector is the automotive manufacturing which includes assemblers for Hyundai and Volvo, with implications for related building structures ([www.scmb.co.za](http://www.scmb.co.za) -2002-02-26)
- 9 *Botswana is a member of a significant number of organisations* and, as a result, does have a considerable net inflow of foreign aid investment
- 10 Government has definite plans of expanding its educational facilities and thus the building of schools and other tertiary institutions
- 11 The construction industry provides over 50% of the national long-term assets. The production of diamonds gave a new breath to the economy of Botswana and engineered growth of the construction industry. In 1999, the construction industry contributed 5.9% of the Gross Domestic Product and the value added activity, in current 2000 prices, stood at P1 382 million, approximately US\$ 260 million. Employment in the sector was approximately 29 500 people, representing 20% of the employment in the private and parastatal sectors (excluding the Government) (Palalani, 2000)
- 12 Insurance cover is available for South African companies doing business in Botswana. Stanbic's recommended terms for payment is a letter of credit illustrating confidence ([www.scmb.co.za](http://www.scmb.co.za) -2002-02-26)
- 13 On 1<sup>st</sup> March 1999, all Botswana exchange controls were abolished. No restrictions on payments for authorised imports. There is no restrictions on the flow of funds to and from South Africa ([www.scmb.co.za](http://www.scmb.co.za) -2002-02-26)
- 14 Government offers financial incentives to encourage foreign investments ([www.scmb.co.za](http://www.scmb.co.za) -2002-02-26)

### 2.5.3 LESOTHO

Lesotho is completely surrounded by South Africa



Geographical Area:	30 000 square kilometres
Climate:	Cool to cold, dry winters, hot wet summers
Natural Resources:	Water, agricultural and grazing land, some diamonds and other minerals
Languages:	English is the official language; Sesotho, Zulu, Xhosa
Population (2002):	2.2 million
Labour Force:	700 thousand economically active
Unemployment Rate:	45% (2000)
Currency:	Loti (or maloti – plural) and the South African Rand

GDP (1999):	US\$ 874 million
GDP Composition by Sector:	◆ Agriculture: 18%
	◆ Industry: 38%
	◆ Services: 44%
GDP Real Growth Rate:	2.5% (2000 estimate)
Inflation Rate:	6% (2000 estimate)
Interest Rate:	17.66% (Feb 2003) Stanbic
HDI Value (1998):	0.569 (Medium Human Development)
HDI Ranking (2000):	132 out of 173 countries
Life Expectancy (2000):	46 years
Urban population (2000):	28%
Literacy Rate (2000):	83% amongst adults
HIV/ AIDS:	23.57% adult prevalence rate (4 <sup>th</sup> Highest in the world)
External Debt:	US\$720 million (2000 estimate)
Economic Aid Recipient:	US\$123.7 million (1995)

Small, landlocked, and mountainous, Lesotho's primary natural resources is water. Its economy is based on subsistence agriculture, livestock and remittances from miners employed in South Africa. The pace of substantial privatisation has increased in recent years ([www.geographyiq.com](http://www.geographyiq.com) 2003-02-25). In December 1999, the government embarked on a nine-month IMF staff-

monitored program aimed at structural adjustment and stabilisation of macroeconomic fundamentals ([www.geographyiq.com](http://www.geographyiq.com) 2003-02-25).

Telephone and telegraphic services are available. There is excellent hotel accommodation. Daily flights are available to and from South Africa.

CGIC does offer cover to South African companies exporting to Lesotho and the recommended terms for South African exports is a letter of credit ([www.scmb.co.za](http://www.scmb.co.za) - 2003-02-26).

The protests against the 1998 election results sparked far-reaching unrests that have continued to mar the political scene. In a small homogenous society, these differences are largely a result of the demand for transparency, accountability and the rule of law. The coup attempt of 1996, political mutiny in 1997 and industrial unrest have become the trademark of the unstable political situation in Lesotho ([www.ilo.org](http://www.ilo.org) - 2003-31-01).

#### Risks:

- 1 It is one of the least developed countries in the world and has few natural resources. It is the ninth poorest country in the world, with a very fragile and unsuitable working population (due to under nourishment) for the construction sector

*2 Apart from its hydro-electrical power, with accompanying construction implications, Lesotho has limited opportunities in the construction industry*

Opportunities:

- 1 The country is completely surrounded by South Africa, thus making it totally vulnerable and dependent on South Africa. As a result, South African construction materials are frequently used
- 2 Tourism has recently been actively promoted but *limited opportunity exists*
- 3 *Substantial growth has evolved in the construction industry since the Lesotho Highlands Water Project. The completion of all phases is intended to continue up to 2020*
- 4 *Due to the Lesotho Highlands Water Project, certain related infrastructure has also been developed*



#### 2.5.4 MALAWI

Malawi is a landlocked country bordered by Zambia on the west, Mozambique west and east and Tanzania to the north and northeast. Lake Malawi forms most of the eastern boundary.



Geographical Area:	118 000 square kilometres
Climate:	Sub-tropical; rainy season (Nov-May); dry season (May-Nov)
Natural Resources:	Limestone, arable land, hydropower, unexploited deposits of uranium, coal and bauxite
Languages:	English and Chichewa are the official languages
Population (2002):	10.7 million
Labour Force:	3.5 million
Unemployment Rate:	Not available
Currency:	Malawian Kwacha
GDP (1999):	US\$ 1.81 billion
GDP Composition by Sector:	◆ Agriculture: 37% ◆ Industry: 29% ◆ Services: 34%
GDP Real Growth Rate:	3% (2000 estimate)
Inflation Rate:	29.5% (2000 estimate)
Interest Rate:	41% (end Jan 2003) Stanbic
HDI Value (1998):	0.385 (Low Human Development)
HDI Ranking (2000):	137 out of 173 countries
Life Expectancy (2000):	40 years
Urban population (2000):	25%
Literacy Rate (2000):	60% amongst adults

HIV / AIDS:	15.96% adult prevalence rate (8 <sup>th</sup> Highest in the world)
External Debt:	US\$2.9 billion (2000 estimate)
Economic Aid Recipient:	US\$427 million (1999)

Landlocked Malawi ranks amongst the world's least developed countries. The economy depends on substantial inflows of economic assistance from the IMF, Worldbank and individual donor nations. In late 2000, Malawi was approved for relief under the Heavily Indebted Poor Countries program. The government faces strong challenges to fully develop the market economy, improve educational facilities, face up to environmental problems and to deal with the rapidly growing problem of HIV/AIDS ([www.geographyiq.com](http://www.geographyiq.com) 2003-02-25).

Telex and fax facilities are available. Post and telecommunications systems are modern. Tourism is growing and there is potential for growth ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26).

CGIC does offer cover to South African companies exporting to Malawi. The recommended terms are an irrevocable confirmed letter of credit ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26).

The Malawi government has liberalised trade and foreign exchange and is in the process of reforming trade taxes and tariffs. South African exporters should

ensure that the necessary authority for imports is granted by the Reserve Bank of Malawi and that the necessary imports exist for shipment of goods. Payment will not be effected without customs clearance. Bonded warehouses are available in Malawi. Almost all non-tariff barriers to trade have been eliminated ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26).

Since 1994, a program of political and economic reforms has been put in place, featuring the familiar components included in IMF and World Bank sponsored adjustment policies. Previous attempts to implement such policies were not very successful. Less than 15% of the labour force is employed in the formal sector ([www.ilo.org](http://www.ilo.org) 2003-02-31).

Risks:

- 1 It is a landlocked country and is reliant on other countries' borders for the importation of materials
- 2 It is one of the six poorest nations on earth and with a life expectancy of only 40 years. The under nourished population does not make for a suitable workforce in the construction industry
- 3 *Potential in the construction industry is limited mainly to the upgrade of infrastructure, the provision of educational and housing facilities as well as limited potential in the field of tourism*

- 4 It is a usual occurrence to have construction projects interrupted or stopped several times due to lack of funding, foreign exchange and corruption before a project is completed in its entirety

Opportunities:

- 1 Due to its poverty problem it has attracted foreign aid which have implications for the construction of houses, schools and hospitals
- 2 Malawi's economy is very dependent on tourism. *The government has taken certain measures to encourage private investors in the hotel industry.* Tourism around Lake Malawi can be further exploited creating a few opportunities for construction related and accompanying services

### 2.5.5 MOZAMBIQUE

Mozambique is bordered by Tanzania in the north, Malawi, Zambia and Zimbabwe on the west, South Africa and Swaziland on the south and southwest.



Geographical Area:	802 000 square kilometres
Climate:	Tropical to sub-tropical
Natural Resources:	Coal, titanium, natural gas, hydropower, tantalum, graphite
Languages:	Portuguese is the official language. Indigenous dialects also exist.
Population (2002):	19.6 million
Labour Force:	7.4 million
Unemployment Rate:	21% (1997)
Currency:	Metical
GDP (1999):	US\$ 3.98 billion
GDP Composition by Sector:	<ul style="list-style-type: none"><li>◆ Agriculture: 44%</li><li>◆ Industry: 19%</li><li>◆ Services: 37%</li></ul>
GDP Real Growth Rate:	3.8% (2000 estimate)
Inflation Rate:	11.4% (2000 estimate)
Interest Rate:	24.5% (Feb 2003) Stanbic
HDI Value (1998):	0.341 (Low Human Development)
HDI Ranking (2000):	170 out of 173 countries
Life Expectancy (2000):	39 years
Urban population (2000):	40%
Literacy Rate (2000):	44% amongst adults

HIV / AIDS:	13.22% adult prevalence rate (11 <sup>th</sup> Highest in the world)
External Debt:	US\$1.4 billion (2000 estimate)
Economic Aid Recipient:	US\$1.04 billion (1998)

Before the peace accord of 1992, Mozambique's economy was devastated by a protracted civil war and social mismanagement. In 1994 it ranked as one of the world's poorest countries. Since then it has taken a series of economic reforms. Almost all the aspects of the economy has been liberalised to some extent. More than 900 state enterprises have been privatised. Since 1996, inflation has been low and foreign exchange rates relatively stable. The economy grew by 10% during 1997 to 1999, one of the highest in the world. Growth slowed and inflation rose in 2000 due to the devastating floods, but both indicators are said to be recovering. Mozambique has received a formal cancellation of a large portion of its external debt through the IMF initiative and is scheduled to receive additional relief ([www.geographyiq.com](http://www.geographyiq.com) 2003-02-25).

Substantial foreign investment has been fed into metal production, power generation (Motraco, Joint venture with South Africa and Swaziland) and natural gas (Sasol and Enron). Mozal – the aluminium smelter plant - has begun producing aluminium for export ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26).



CGIC does provide cover to South African companies exporting to Mozambique. The recommended terms for South African exports are a confirmed letter of credit ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26).

Aid inflows constitute about 35% of the total GDP, which by itself is a major danger in terms of dependency ([www.ilo.org](http://www.ilo.org) 2003-01-31)

Risks:

- 1 In 1990 Mozambique was regarded by the World Bank as the poorest country in the world
- 2 *Independence brought an immediate crisis, with capital, machinery, transport equipment, managerial and technical resources leaving the country*
- 3 High insurance premiums are applicable on equipment for a number of reasons including theft, foreign exchange due to most equipment being imported, etc. ([www.scmb.co.za](http://www.scmb.co.za) - 2003-02-26)
- 4 *Most building materials and machinery are imported from South Africa*
- 5 *It is the most aid-dependent country in the world*

Opportunities:

- 1 Up to the early 2000 floods, the Mozambican economy was still showing high growth rates. Similarly, both investment and foreign aid inflows are still very substantial ([www.ilo.org](http://www.ilo.org) 2003-01-31)

- 2 The World Bank has approved a US\$60m loan for higher education, which will have some implication for the construction sector as well ([www.ilo.org](http://www.ilo.org) 2003-01-31)
- 3 The main support and investment are related to filling the backlog of infrastructure, which is also why aid flows are substantial ([www.ilo.org](http://www.ilo.org) 2003-01-31)
- 4 *Considerable foreign funds have been earmarked for upgrading infrastructure (roads, ports/ harbours, railways and airports) networks in order to make adjacent landlocked countries also more accessible from Mozambique's harbours*
- 5 *The Nelspruit-Maputo corridor, at approximately US\$100 million was developed because Maputo is the logical port for South Africa's Limpopo, Mpumalanga and Gauteng Provinces. This could facilitate the transportation of construction materials to and from South Africa*
- 6 It is a country rich in potential for tourism, however, infrastructure needs to be developed to support the tourism industry. Tourism, is nevertheless, booming in the country ([www.ilo.org](http://www.ilo.org) 31-01-2003)
- 7 *Potential exists for the supply of materials as well as the erection of factories and the manufacture of building materials inside Mozambique*
- 8 *The unemployment rate causes influx of people from rural areas, creating opportunities for the provision of housing and accompanying infrastructure*
- 9 *Limited potential exists in the field of office space for consulates, embassies and business companies in Maputo*

- 10 The construction industry in recent years has experienced a boom period, due to renewed impetus given to national reconstruction programs following the return of peace and stability in the country. The needs in terms of infrastructure are enormous. They include social services such as schools, hospitals, housing, etc. (Business Guide to Mozambique, 2000)
- 11 The Mozal Smelter has given the economy a boost and Phase Two will further see the participation of South African construction companies (Insight Magazine, Summer 2002 edition)
- 12 Group Five has strengthened its foothold in Mozambique by winning two contracts worth R95 million at Vilankolos in Mozambique for a Sasol gas works contract (Insight Magazine, Summer 2002 edition)

## 2.5.6 NAMIBIA

Namibia became independent on 21 March 1990. Namibia is situated in south western Africa bounded by the Atlantic Ocean and South Africa to the south and southeast, Botswana to the east and Angola to the north.



Geographical Area: 825 000 square kilometres

Climate: Dessert, hot, dry, rainfall sparse and erratic

Natural Resources: Diamonds, copper, uranium, gold, lead, tin, lithium, cadmium, zinc, salt, vanadium, natural gas, hydropower, fish and suspected deposits of oil, coal and iron ore

Languages: English 7% (official), Afrikaans common language, German and indigenous dialects.

Population (2002):	1.82 million
Labour Force:	500 000
Unemployment Rate:	Between 30 and 40% (1997)
Currency:	Namibian Dollar and the South African Rand
GDP (1999):	US\$ 3.08 billion
GDP Composition by Sector:	<ul style="list-style-type: none"><li>◆ Agriculture: 12%</li><li>◆ Industry: 25%</li><li>◆ Services: 63%</li></ul>
GDP Real Growth Rate:	4% (2000 estimate)
Inflation Rate:	9.1% (2000 estimate)
Interest Rate:	17.5% (Feb 2003) Stanbic
HDI Value (1998):	0.655 (Medium Human Development)
HDI Ranking (2000):	122 out of 173 countries
Life Expectancy (2000):	45 years
Urban population (2000):	31%
Literacy Rate (2000):	82% amongst adults
HIV / AIDS:	19.54% adult prevalence rate (7 <sup>th</sup> Highest in the world)
External Debt:	US\$217 million (2000 estimate)
Economic Aid Recipient:	US\$127 million (1998)

Mining accounts for 20% of the GDP. Although the GDP per capita is four times the GDP per capita of Africa's poorest countries, the majority of Namibia's

people live in pronounced poverty because of large-scale unemployment, the great inequality of income distribution and the large amount of wealth going to foreigners. The Namibian economy has close links to South Africa ([www.geographyiq.com](http://www.geographyiq.com) 20003- 02-25).

Post and telecommunications systems are run independently and are modern and efficient. Cell phones, telex and facsimile services are available. Tourism is one of the fastest growing sectors of the economy since independence. CIGC does offer cover to South African companies exporting to Namibia.

Namibia is a member of the CMA and the SACU, thus eliminating exchange rate problems and import restrictions ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26).

The SWAPO government has retained its political dominance. At the end of 1999, President Nujoma was sworn in for a controversial third term, despite violent incidents during the elections. The next elections are scheduled for 2004 ([www.ilo.org](http://www.ilo.org) 2003-01-31).

Risks:

- 1 *Namibia's physical and geographical features are harsh and largely unfavourable to human endeavour. It is extremely exposed to the elements*
- 2 *Water is a scarce commodity in Namibia*

- 3 *Because of budgetary constraints, the construction industry should not rely too much on the government as a source of funding. However, government has been the major client in the industry during the past few years*
- 4 *Competitors, other than South African companies, have already entered the country. A Malaysian consortium called Mavco won its first contract to build low cost housing for 9,9 million Pounds*
- 5 *The construction potential is fairly limited because of its relatively small population*

Opportunities:

- 1 *Like most other African countries, Namibia needs to increase the number of school buildings*
- 2 *The World Bank classifies Namibia as a middle-income developing country*
- 3 *Namibia has adequate infrastructure. Post and telecommunication systems run independently to those of South Africa and are modern and efficient*
- 4 *The local industry is subject to greater competition. Competitive tendering procedures do apply for public funded projects with awards to the lowest bidder. Wilson Bayly Holmes Ovcon completed a stage of the Trans- Caprivi highway by being the lowest bidder*
- 5 *A major challenge is meeting the growing housing needs of the population and also eliminating the enormous backlog*

### 2.5.7 SWAZILAND

Swaziland is bounded on the north, west and south by South Africa and the east by Mozambique.



Geographical Area:	17 000 square kilometres
Climate:	Varies from tropical to near temperate
Natural Resources:	Asbestos, coal, clay, cassiterite, hydropower, forest, small gold and diamond deposits, quarry stone and talc
Languages:	English and Siswati are official languages
Population (2002):	1.12 million
Labour Force:	Data not available



Unemployment Rate:	22% (1995)
Currency:	Lilangeni
GDP (1999):	US\$ 1.22 billion
GDP Composition by Sector:	◆ Agriculture: 10%
	◆ Industry: 46%
	◆ Services: 44%
GDP Real Growth Rate:	2.4% (2000 estimate)
Inflation Rate:	6.4% (2000 estimate)
Interest Rate:	16.5% (Feb 2003) Stanbic
HDI Value (1998):	0.655 (Medium Human Development)
HDI Ranking (2000):	125 out of 173 countries
Life Expectancy (2000):	44 years
Urban population (2000):	26%
Literacy Rate (2000):	80% amongst adults
HIV / AIDS:	25.25% adult prevalence rate (2 <sup>nd</sup> Highest in the world)
External Debt:	US\$281 million (2000 estimate)
Economic Aid Recipient:	US\$55 million (1995)

In this landlocked economy, subsistence agriculture occupies more than 60% of the population. Manufacturing features a number of agroprocessing factories ([www.geographyiq.com](http://www.geographyiq.com) 2003-02-25).

Telex and fax facilities can be found in the major cities. Post and telecommunications services are well developed throughout the country. Tourism is one of the major income earners for the country.

CGIC does provide cover in Swaziland. It is recommended that trade be conducted against irrevocable confirmed letter of credit.

Swaziland is a member of the CMA and SACU thus eliminating foreign exchange problems and import restrictions ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26).

Swaziland is another Southern African country with sporadic political instability events.

Risks:

- 1 *Similar to most countries in Southern Africa, Swaziland is gradually sliding towards serious socio-economic problems which is mainly caused by worsening imbalance between the country's population numbers and the development resources at the country's disposal*
- 2 It is highly dependent on South Africa for its electrical power
- 3 *Apart from South Africa's construction companies, European companies also dominate the construction industry*

Opportunities:

- 1 Because it is locked by South Africa, it is logistically favourably located for South African contractors
- 2 Swaziland has one of the highest population growth rates in the world, but the *government does not have a coherent housing policy nor a broader urbanisation policy*. However, several housing projects are set to commence in the near future
- 3 It is striving towards access to health services for all. A major programme of clinic renovations is underway
- 4 *Its inflation is influenced by South Africa because of close economic ties, and thus South African contractors can anticipate market trends*
- 5 *Maintenance and upgrading of road networks, provision of additional water reticulation, electricity and health care services have potential for South African construction companies*

### 2.5.8 ZAMBIA

It is landlocked, bounded by Tanzania and the Democratic Republic of Congo (Zaire) north, Malawi and Mozambique in the east, Zimbabwe, Botswana and Namibia on the south and Angola on the west.



- Geographical Area: 753 000 square kilometres
- Climate: Tropical; modified by altitude, rainy season (October to April)
- Natural Resources: Copper, cobalt, zinc, lead, coal, emeralds, gold, silver, uranium, hydropower
- Languages: English (official) and other major vernaculars
- Population (2002): 9.959 million
- Labour Force: 3.4 million

Unemployment Rate:	50% (2000 estimate)
Currency:	Zambian Kwacha
GDP (1999):	US\$ 3.15 billion
GDP Composition by Sector:	◆ Agriculture: 18%
	◆ Industry: 27%
	◆ Services: 55%
GDP Real Growth Rate:	4% (2000 estimate)
Inflation Rate:	27.3% (2000 estimate)
Interest Rate:	53.3% (end Jan 2003) Stanbic
HDI Value (1998):	0.420 (Low Human Development)
HDI Ranking (2000):	153 out of 173 countries
Life Expectancy (2000):	41 years
Urban population (2000):	40%
Literacy Rate (2000):	78% amongst adults
HIV / AIDS:	19.95% adult prevalence rate (5 <sup>th</sup> Highest in the World)
External Debt:	US\$6.5 billion (2000 estimate)
Economic Aid Recipient:	US\$1.99 billion (1995)

Despite progress in privatisation and budgetary reform, Zambia's economy has a long way to go ([www.geographyiq.com](http://www.geographyiq.com) 2003-02-25). Medical facilities are limited. There is potential growth for tourism. CGIC does provide cover to South African companies exporting to Zambia but on a case-by-case basis. The

Exchange Control Act has been abolished. Zambians and non-residents may hold foreign currency accounts ([www.scmb.co.za](http://www.scmb.co.za) 2003-02-26).

Risks:

- 1 It is totally landlocked but accessible from a number of different countries
- 2 *Its copper resources are fast diminishing*
- 3 There is little construction work as there are only a few private clients with money for development. They are also obliged to find foreign currency for imported items (Shakantu, 2002)
- 4 Limited opportunities for tourists and related facilities exist
- 5 “The lonely planet describes the roads in Zambia from “..... new smooth tar to appalling potholes. Dirt roads range from bad to impassable, especially after the rain.” It goes on to say “..... if you haven’t driven in Africa before, this is no place to start.” But thanks to the efforts of the Zambian government to encourage a boost in tourism and generally boost the economy, much is being done to rehabilitate the roads, several of which have been completed by South Africa’s Group 5 over a number of years. The current upgrade and rehabilitation is a 200km stretch which travels west from Victoria Falls to across the border into the Caprivi strip in Namibia,” (Insight Magazine, Summer 2002 edition)

Opportunities:

- 1 Government, in certain ways, are trying to create a more favourable climate for foreign investors. *Exchange controls have been eliminated, but high import duties are still being levied*
- 2 *Much of the foreign aid forthcoming in the next few years would be applied to road repairs, road maintenance, education facilities and preventative health care*
- 3 *The provision of serviced stands and low cost housing with innovative methods of financing has possibilities for the construction industry*
- 4 Group Five sub-contracted to the Japanese contractor, Kajima Corporation who fulfil the supervisory role for the Chirundu bridge across the Zambezi between Zambia and Zimbabwe, which was sponsored by the Japanese government, (Insight Magazine, Summer 2002, edition)

### 2.5.9 ZIMBABWE

The country is landlocked, bordered by Botswana to the southwest, Mozambique to the east and northeast, South Africa to the south and Zambia to the north.



- Geographical Area: 391 000 square kilometres
- Climate: Tropical; moderated by altitude, rainy season (Nov to March)
- Natural Resources: Coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin, platinum group metals
- Languages: English (official) Shona, Sindebele and numerous but minor tribal dialects
- Population (2002): 11.377 million



Labour Force:	5.5 million (2000 estimate)
Unemployment Rate:	50% (2000 estimate)
Currency:	Zimbabwean Dollar
GDP (1999):	US\$ 5.607 billion
GDP Composition by Sector:	◆ Agriculture: 28%
	◆ Industry: 32%
	◆ Services: 40%
GDP Real Growth Rate:	-6.1% (2000 estimate)
Inflation Rate:	200% (2003 estimate)
Interest Rate:	37.5% (Jan 2003) Stanbic
HDI Value (1998):	0.555 (Medium Human Development)
HDI Ranking (2000):	128 out of 173 countries
Life Expectancy (2000):	43 years
Urban population (2000):	35%
Literacy Rate (2000):	89% amongst adults
HIV / AIDS:	25.06% adult prevalence rate (3 <sup>rd</sup> Highest in the World)
External Debt:	US\$4.1 billion (2000 estimate)
Economic Aid Recipient:	US\$200 million (2000)

Post and telecommunications is comparatively up to date and offer service to the world. However, Zimbabwe is in political turmoil and tourism has been hard hit by the political instability.

The situation in Zimbabwe is vastly different due the political scenario since Bredenkamp's treatise and as such the information in Bredenkamp's treatise was not reviewed for Zimbabwe.

After the 2002 presidential elections the government announced that it was abandoning the IMF and World Bank inspired structural adjustment policies. The political and social unrests of recent makes all predictions highly tentative. Heavy domestic borrowing has continued. It is an absolute unstable environment for investments due to political and economic upheaval, ([www.ilo.org](http://www.ilo.org) 2003-01-31).

Risks:

- 1 It is totally landlocked, but can be accessed from a number of countries
- 2 The political instability has caused complete havoc with a once promising economy. There is a huge shortage of fuel, crippling a significant number of industries. It has become a cash strapped country with very little foreign exchange. The law of the country is totally unreliable. Land reclamation has scared off investors. Essentially, the country is in a severe state of depression and virtually no new work can be anticipated for a long time to come ([www.ilo.org](http://www.ilo.org) - 2003-01-31)
- 3 Insurance costs are astronomical
- 4 Commercial interest rates cripple the country with the worst effect on housing

- 5 *All government and parastatal tenders up to US\$10 million will be reserved for indigenous contractors and members of the Zimbabwe Building Contractors Association will be given preference*
- 6 *There is insufficient foreign exchange for new plant and equipment or spares. An inventory of the construction industry's plant revealed that, half of it is more than ten years old, and a third is more than 15 years old*
- 7 The shortage of skills is a major problem in its construction industry
- 8 The potential for tourism has been killed off by the recent political turmoil
- 9 *Zimbabwe used to be fairly self-sufficient in the provision of building materials, which has now been totally devastated*
- 10 Inflation reached 122.5% in June 2002 ([www.ilo.org](http://www.ilo.org) - 2003-01-31) and galloped to 208% by February 2003 ([www.allafrica.com](http://www.allafrica.com) - 2003-02-24)
- 11 Without having to discourage foreign investment, Zimbabwe is isolated from international countries at this stage because the political climate is not favourable
- 12 Zimbabwe is a country which presents enormous expropriation risks without adequate compensation, and as such, proves to be an unpopular destination to globalise in

Opportunities:

- 1 The adult literacy rate of 89% is one of the highest among the sub-Saharan African countries

- 2 Zimbabwe is rich in mineral resources and has a relatively well developed infrastructure
- 3 When no one else is willing to venture in Zimbabwe, companies can make a handsome profit if all risks are priced for

## **2.6 Conclusion**

Globalisation is an inescapable fact. National economies are no longer immune to external influences and cannot be insulated from global effects. South African construction companies globalise as a result of expansion, diversification, deepening of trade and to eliminate the cyclical nature of the construction market within South Africa.

In terms of the first sub-problem, “what are the risks and opportunities when globalising in southern Africa?” the literature review revealed the following risks for South African construction companies; competition from other international construction companies, the lack of political stability in the region, fraud and corruption, conflicting cultures of varying regions, the impact of foreign exchange, under-researched and documented industries and lack of quality assurance and the impact of HIV/AIDS amongst other risks.

In contrast, funding and foreign aid, the superior information technology that South African construction companies possess, the opportunities to form associations and joint ventures with other construction companies to access markets and the possibility of advance payments are amongst the opportunities that can be exploited in the Southern African region by South African contractors.

Sub-Saharan Africa is viewed as one of the world's poorest and under-developed regions and with alarming HIV/AIDS infection prevalence rates. However, it is a region rich in natural resources and tourism potential.

The countries analysed in this treatise for the risks and potential opportunities for South African construction companies are; Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe.

A common trend through most of the countries is; political instability, under-developed infrastructure, massive needs for houses, schools and hospitals, ample supply of unskilled and semi-skilled labour force and a high dependency on foreign aid. Conversely, opportunities exist to upgrade infrastructure, address the massive housing, schools and hospital needs, exploitation of tourism potential and the ability to form joint ventures with local construction companies in an attempt to transfer skills, share risks and overcome culture barriers.

The following hypotheses have been supported via the research in this chapter.

- ◇ Globalisation does attract risks and opportunities
- ◇ Literature review does identify most notable risks and opportunities when globalising into Southern Africa
- ◇ A review of statistical data does illustrate the current status of the country's economic development and construction and

- ◇ Each selected SADC country can be analysed in terms of risks and opportunities

This chapter was based on literature review. The following chapter is based on the actual experiences of the major South African construction companies when globalising into the Southern African region.

## **CHAPTER 3**

### **THE INTERNATIONAL EXPERIENCE OF SOUTH AFRICAN CONSTRUCTION COMPANIES**

#### **3.1 Introduction**

To determine what the experiences of South African Construction companies have been, structured interviews were conducted during 2003 with directors or suitable company representatives of the following major listed companies; Grianaker/LTA, Group Five, Wilson Bayly Holmes Ovcon, Basil Read and Murray and Roberts.

A copy of the structured interview questions is bound at the back of this document as Annexure A.

The questions could be classified into five categories:

- ◆ Globalisation (why are they globalising?)
- ◆ Globalisation into Southern Africa (Which countries are they globalising and to what extent?)
- ◆ Risks (the risks that they have encountered when globalising into Southern Africa and a rating of each of the countries)
- ◆ Opportunities (the opportunities they have managed to exploit when globalising into Southern Africa and a rating of each of the countries)



- ◆ Advice (any words of advice or rules of thumb they would offer for globalising), discussed in Chapter 5 of this treatise

## **3.2 The Results of the Interviews**

### **3.2.1 Why Globalise?**

Unanimously, all the interviewees stated that a strategic consideration is the reasoning to venture abroad. Both aggressive (maintaining growth and expansion) and defensive (protection of shareholders) tactics contribute to the companies globalising.

Even though all the interviewees stated that both aggressive and defensive tactics were amongst the strategic considerations to venture abroad, overwhelmingly the responses to the discussion imply a more defensive approach such as:

- ◆ A cyclical construction industry and a depressed South African market is forcing the major players to venture across the border of South Africa
- ◆ Considerable input costs are foreign currency (dollar) based and thus companies would like to earn hard currency
- ◆ The available work in South Africa is not adequate to sustain all the major South African construction companies. The local market is saturated and thus contributes to lower profit margins making trading conditions unfavourable
- ◆ The continuing increases in labour costs (supported by government legislation) is making construction less and less profitable in South Africa

- ◆ Domestically, tenders are being broken into smaller packages, thus attracting more players to the market and not making it feasible for larger construction companies to tender on. Thus, these companies look cross border in an attempt to win larger, feasible projects which can sustain the larger construction companies considering their overhead structures
- ◆ Lower taxes in some external markets result in higher profits

Only one company's representative elaborated on the aggressive approach discussing growth continuity and good business opportunity related with globalisation.

As regards international contracting being more profitable than contracting domestically, the responses differed as follows:

- ◆ "It is not yet profitable as there is a steep learning curve, but we do believe that there is greater opportunity to be more profitable once the learning curve is surpassed"
- ◆ "The margins for profit are higher, but so are the risks. More disasters are encountered when venturing externally"
- ◆ "Yes definitely, the profit margins are two to three times more compared to domestic contracting"
- ◆ "International contracting can be more profitable than domestic contracting only if managed properly. It could materialise in profits two to three times the domestic profit margin"

- ◆ “Some projects are profitable and others not, pending on the risks encountered and realised”

### **3.2.2 To What Extent are the Major Domestic Construction Companies Globalising into Southern Africa**

As regards the building construction industry (excluding civil engineering construction) amongst Basil Read, Grinaker-LTA, Group Five, Murray and Roberts and Wilson Bayly Holmes Ovcon the following countries have been contracted into as indicated in each case in Table 3.2.1.

*Table 3.2.1: Extent of Globalisation into Selected Countries by Major South African Construction Companies*

<b>Countries</b>	<b>No. of Companies that have contracted in that country out of a total of 5 companies</b>	<b>% of Companies interviewed that has contracted in that country</b>
Angola	4 out of 5	80%
Botswana	4 out of 5	80%
Lesotho	4 out of 5	80%
Malawi	2 out of 5	40%
Mozambique	5 out of 5	100%
Namibia	4 out of 5	80%
Swaziland	2 out of 5	40%
Zambia	3 out of 5	60%
Zimbabwe	4 out of 5	80%

*Source: Results of interviews conducted with representatives of companies during 2003*

As regards the percentage of the total turnover each country's activities contributed to total turnover in an attempt to establish the amount or value of work performed in a country, these were unobtainable at the interviews. However, interviewees indicated that these countries, combined, contributed between 5% and 50% of their total turnover.

### **3.2.3 What are the Risks Encountered in the Selected Southern African Countries?**

The following risks are considered to be more severe than domestic risks encountered when working in selected Southern African countries:

- ◆ Late payment and non-payment: This affects continuity of work and profitability of the project. It is the greatest risks perceived unanimously by all participants. Even though contracts may make provision for upfront payment, sometimes within the first three months the upfront payment is utilised and further interim payments are then not forthcoming. This problem is perceived for both public sector and private sector clientele.

Although most contracts are based on the FIDIC form of contract, which makes provision for the following, the clients usually draw up the agreement and may elect to alter the terms and conditions as they wish:-

- ◇ Clause 2.4 “Employer’s Financial Arrangements” – which states that the Employer shall submit, within 28 days after receiving any request from the Contractor, reasonable evidence that financial arrangements have been made and are being maintained .....
- ◇ Clause 13.4 “Payment in Applicable Currencies” and Clause 14.15 “Currencies of Payment” – which makes provision for the contract to be paid in more than one currency .....
- ◇ Clause 14.2 “Advance Payment” – which makes provision for an advance payment, as an interest free loan for mobilisation, when the Contractor submits a guarantee .....

- ◆ Foreign exchange: A risk in terms of the ability to predict profits and losses, especially, when payment is made and received in several different currencies. In addition, the availability of foreign exchange in the countries could sometimes be of concern
- ◆ Health of the workforce: A major concern, especially, in the Southern African region where malaria is prevalent. Apart from affecting the general workforce, this affects expatriates from South Africa to the Southern African countries who either refuse to work on these projects or request additional remuneration for such risks. In addition to Malaria, HIV/AIDS is fast becoming a huge concern affecting productivity of workers
- ◆ Bureaucracy and legal framework: Especially prevalent in ex-Portuguese colonies such as Angola and Mozambique. The requirements are often frustrating and difficult to understand and accomplish
- ◆ Lack of corporate governance: In a number of countries the lack of corporate governance, does not assist in alleviating the problem of fraud and corruption, which exist in a number of countries. It creates significant hurdles in trying to achieve a successful project. The FIDIC contract also entitles the Employers in terms of clause 15.2(f) to terminate the Contract if the Contractor offers or gives to any person a bribe, gift, gratuity, commission or other thing of value, as an inducement to reward in relation the Contract
- ◆ Productivity risks: Particularly that of inexperienced and unskilled labour. Until the company commences work in the area, the company is at risk in terms of determining exactly how productive the workforce would be, in terms

of timely completion and quality of work, which ultimately affects costs. Training of local labour depends on their competency level and to a certain extent, their culture in terms of work ethic. Safety is essential to any reputable construction company and, most frequently, construction workers in the selected countries are not safety conscious to the extent that South African construction companies insist on

- ◆ Cultural diversity: Dealing with and understanding different cultures, either when conducting business at an advanced level or when instructing or guiding workforce poses a risk. Cultural issues include those of language disparity, work ethic, time perception and attitude towards safety
- ◆ Logistics: Comprising of timely delivery of materials, import and custom duties and customs clearance and port congestion, overcoming hurdles at borders, obtaining necessary permits, labour availability and expertise, equipment and spares availability, mobilising staff and plant, understanding taxes and duties (sometimes hidden), condition of existing infrastructure affecting delivery, etc.

As regards the following identified risks from the literature review the respondents commented as indicated:

- ◆ Political:
  - ◇ The instability of the country and inability to attract foreign investment is not viewed as a risk to construction companies coming from South

Africa as they will move on to search for a country with “greener pastures”

- ◇ There is a fair amount of delaying tactics at all levels which, at initial stages, cause havoc with resource planning and, at later stages, with payments
- ◇ Generally political issues which are encountered during the tendering stage are usually resolved by the time the contract is secured
- ◆ Legal:
  - ◇ The inconsistency in laws, the changes in law and the lack of regulations are viewed as a moderate risk
  - ◇ As South African contractors are still on the learning curve, the law is yet untested in these selected countries
- ◆ Cultural:
  - ◇ The idea that South Africa is deal focussed whereas most of the selected Southern African countries are relationship focussed is perceived as a moderate risk
  - ◇ Some participants do not perceive culture as a risk but consider culture as part of the trading terms. Sensitivity to other cultures must be practiced, and reinvestment of funds and knowledge into the host country is also important
- ◆ Foreign exchange:
  - ◇ The volatile currencies make it extremely difficult to predict profits and losses and is perceived to be a high risk



- ◇ A huge element of construction equipment is imported which makes it particularly vulnerable to foreign exchange fluctuation
- ◇ Contractors are becoming more “street wise” as they request hard currency. However, most payment terms are donor or government driven
- ◇ Certain projects come with South African export finance, which requires that 70% of the value should be of South African content. Exorbitant fluctuations in the currencies either make or break these projects
- ◇ Purchasing of forward cover is risky, as there is often delays in the award of the contract or the project is put on hold during the construction phase by which time the exchange rates fluctuate sometimes drastically
- ◆ Import duties, customs duties, customs clearance and port congestion:
  - ◇ It is viewed as a medium to serious risk and contractors are warned to be aware of, and to be experts, or deal with experts in the country’s requirements. The port in Luanda, Angola is particularly notorious for such a risk
  - ◇ Donor aid projects are exempt from taxes
- ◆ Equipment and spares availability:
  - ◇ Equipment and spares availability is not perceived to be a risk as such, as contractors plan for their requirements and possible risks

they may face. A major construction equipment company dealing in South Africa also deals in a number of Southern African countries

- ◇ If the country is within the Common Monetary Area contractors prefer to take their own equipment. If the country falls outside the ambit of the CMA, contractors assess whether it would be worthwhile to take their own equipment or to purchase or lease or hire equipment locally
- ◆ Labour availability and expertise:
  - ◇ Ample unskilled and/or semiskilled labour is available in these countries. However, expertise and skilled labour becomes more difficult to find as one moves away from the major cities and into the more remote areas, forcing companies to export South African labour
  - ◇ The importance of re-investing skills and expertise in the host countries was also emphasised for reasons of good relations
- ◆ Competitors:
  - ◇ The South African counterparts are equally competitive with each other, in fact more competitive than European and other contractors.
  - ◇ Chinese are fairly dominant in the Southern African region and compete aggressively for projects. Furthermore, Chinese contractors are subsidised by their government, which makes it less risky for them to enter foreign markets. Clients demand “quality” and one respondent commented that Chinese compete on price, whereas South Africans are reputable for quality and timely products. However, he mentioned that Chinese are making considerable efforts to compete on quality as

well as price. Chinese tend to import their labour, who are sometimes prisoners which provides them the competitive edge on pricing

- ◇ Donor countries tend to award contracts to contractors from their own countries
- ◆ Fraud and Corruption:
  - ◇ Opinions varied from rating it as a moderate to high risk making it difficult to operate in a country but, obviously, companies try their utmost to avoid any sort of fraud and corruption
  - ◇ Fraud and corruption is particularly experienced at borders
  - ◇ Corruption often causes payment delays
  - ◇ One interviewee expressed the view that fraud and corruption is not a pandemic feature in Southern Africa, but is more prevalent in east and west Africa
  - ◇ Fraud and corruption is the cause of a lack of corporate governance in a country

Specific risks (only those higher than domestic) relating to specific countries were outlined as follows:

- ◆ Angola
  - ◇ Promptness of payments: Payments are rarely made promptly causing contractors to stop work due to lack of cash flow. Once paid, work commences again. It is not unusual for a project to be interrupted several times during the total project duration due to late payments

- ◇ Culture: Cultural issues, including language disparity and understanding methods of conducting business do pose a risk. Business relationships tend to focus on political relations. War veterans are frequently instigating bureaucracies that play a dominant role in influencing crucial mile stone decisions. Governance and politics are exceptionally influential to the success of a project in Angola
- ◇ Logistics: Bureaucracy, licences, permits, etc. influence logistics extensively, regularly impacting negatively on projects. Materials frequently do not get delivered on time due to delays of processing at the port of Luanda
- ◇ Landmines: The landmine situation imposes risks, more particularly, on civils-related projects
- ◆ Botswana
  - ◇ Technical issues: Theses include the unavailability of services, such as water in remote areas
  - ◇ Fraud and corruption: Fraud and corruption relating to the Botswana Housing Corporation caused unnecessary inconvenience to innocent project team members and cancellation of further projects
- ◆ Lesotho
  - ◇ Political risks: Political risks dominate project success to a large extent

- ◇ Anti-globalisation: The workforce has an awfully negative attitude generally and especially towards South Africans who are viewed as pariah and job and opportunity thieves
- ◆ Malawi
  - ◇ Depressed economy: Being one of the poorest nations on earth, Malawi's economy is far from ideal. The lack of available currency in the country hinders adequate pro-rata and timely payments to contractors. Even private clients struggle to obtain the relevant currencies (Rands or US\$) required for payment. The delay often causes sub-contractors to abandon the project resulting in additional final costs
  - ◇ Fraud and corruption: It is endemic in most sectors
  - ◇ Establishment costs: The cost of establishing and mobilising in Malawi is exorbitant
- ◆ Mozambique
  - ◇ Similar risks to Angola: Being an ex-Portuguese colony risks experienced in Mozambique are similar to those experienced in Angola, but to a milder extent
  - ◇ Logistics: Logistics pose less of a problem if compared to Angola, as Mozambique is closer to South Africa than Angola. However, logistical problems are mainly affected by lack of and status of infrastructure
  - ◇ Prompt payment: Payment risks are high in terms of getting paid promptly and even being paid at all

- ◇ Timeliness: Lack of promptness for time causes considerable delays. It takes a great deal of time to get anything done as there is very little concept of time
- ◇ Lack of skills and language disparity: The lack of skills, language disparity exacerbates the problem at all levels and affects productivity
- ◇ Recovery of taxes: It is an extremely daunting and tedious task to recover taxes
- ◇ Exchange rates: The Rand / Metical exchange rates do pose problems
- ◆ Namibia
  - ◇ Work permits: Obtaining work permits is a time consuming and bureaucratic task
  - ◇ Expertise: It is essential to take South African expertise as expertise is few and far between
- ◆ Swaziland
  - ◇ None of the interviewees expressed any specific related risks to Swaziland
- ◆ Zambia
  - ◇ Logistics: A risk in respects of labour, material and equipment pose a risk. Additionally, requirements are incredibly legalistic in terms of applications and permits from various authorities
- ◆ Zimbabwe
  - ◇ Political turmoil and economic uncertainty: Company representatives indicated that they were not prepared to venture into a country with

such exceptional political instability. Unpredictable and incomparable inflation rates, interest rates, fuel prices and lack of foreign exchange scare away investors. In addition, the insecurity of staff is a huge concern

### **3.2.4 What are the Opportunities Encountered in the Selected Southern African Countries?**

The following opportunities are considered to be more favourable than domestic opportunities encountered when working in selected Southern African countries:

- ◆ Higher returns: There is an opportunity to earn higher returns than domestic projects would allow
- ◆ Donor and foreign aid: As the Southern African region is one of the poorest regions in the world it attracts donor and foreign aid for various projects
- ◆ Rehabilitation construction: Reconstruction and development of dilapidated buildings due to war or neglected maintenance has potential for South African contractors to tender on
- ◆ Tourism: The region presents opportunities for hotels, game lodges, etc.
- ◆ Need for housing, schools, hospitals and infrastructure: An extensive need exists in Southern Africa for basics such as housing, schools, hospitals and infrastructure
- ◆ Superior management capability and information technology by South African contractors: The South African construction industry is relatively superior, with regards to management capability, information technology and quality,

and thus facilitates contractors being more competitive in the Southern African region

- ◆ Earning foreign revenues: An opportunity exists to earn foreign revenues, especially, in countries rich in natural resources such as oil, gas and other minerals
- ◆ Access to a larger global market: By conducting cross-border business this is achievable

As regards the following identified opportunities from the literature review the respondents commented as follows:

- ◆ Foreign aid:
  - ◇ Foreign aid does create opportunities for South African construction companies pending on the size and value of the project. A lot of small and patchy projects are, however, not viewed as opportunities
  - ◇ Foreign aid does offer opportunities, however, one must bear in mind that foreign aid from institutions such as the World Bank and International Monetary Fund is limited even though they are stable donors
  - ◇ Another factor to take cognisance of is the fact that donor countries tend to award contracts to contractors from their own countries rather than contractors from other countries. Some respondents maintain that this is the reason that the Chinese contractors have become dominant in the Southern African region



- ◆ Labour
  - ◇ Ample inexpensive unskilled labour is available in the region
- ◆ Joint ventures and associations:
  - ◇ Forming joint ventures or associations with local companies help alleviate “teething” problems in terms of finding your way around bureaucratic requirements, liaising with the local labour force, authorities in terms of taxes, etc. However, joint ventures can also pose a huge threat (especially if a “forced” joint venture is formed) in terms of being liable for considerably more risk than sharing of profit
- ◆ Information technology and management capability:
  - ◇ South Africans do possess superior knowledge as far as management capability is concerned compared to local contractors. One interviewee felt that South African contractors are the best trained in the world in terms of “hands-on” experience and furthermore broad-banding and flexibility of knowledge in terms of being able to manage an entire project from beginning to end. South African contractors thus possess an advanced understanding and philosophy of the clients’ requirements
  - ◇ The building industry is not incredibly information technology orientated in the Southern African region, including South Africa
  - ◇ South African contractors are capable of providing “total solutions” in terms of arranging finance, appointing a full team of consultants,

building the project and, on some occasions, even operating it thereafter

Specific opportunities (only those more favourable than domestic) relating to specific countries were outlined as follows:

◆ Angola

- ◇ Rich in mineral resources: An oil and gas rich country promising to have related construction opportunities. Perceptions are that sales from oil have created adequate funds to re-establish the country's development
- ◇ Reconstruction opportunities: Rehabilitation and infrastructure development construction opportunities are apparent

◆ Botswana

- ◇ Stable economy: A fairly stable economy, however one interviewee felt that the days of "big opportunity" in Botswana are gone. On the other hand, another interviewee expressed the view that Botswana's plans to become the capital of the SADC region are fairly promising, with developments in infrastructure, hospitals, military academies, etc., in addition to its high literacy rate. However, the big drawback is its high HIV/AIDS prevalence rate
- ◇ Mining resources: Mining revenues are also expected to spill over benefits to the construction industry

- ◇ Tourism: Botswana is viewed internationally as one the most stable countries in the region and therefore it sustains tourism
- ◆ Lesotho
  - ◇ No specific outstanding opportunities were identified by any of the interviewees
- ◆ Malawi
  - ◇ No specific outstanding opportunities were identified by any of the interviewees
- ◆ Mozambique
  - ◇ The opportunities in Mozambique are huge and varied because of its low base infrastructure. Opportunities exists in the tourism sector, general development of the country in terms of housing, schools, hospitals, and infrastructure, especially port and road network development
- ◆ Namibia
  - ◇ Described as a country similar to South Africa, the opportunity realised by South African contractors are the similar conditions that Namibia has to South Africa
- ◆ Swaziland
  - ◇ No specific outstanding opportunities were identified by any of the interviewees

- ◆ Zambia
  - ◇ No specific outstanding opportunities were identified by any of the interviewees
- ◆ Zimbabwe
  - ◇ Should the Mugabe regime no longer exist, respondents sense that huge opportunities may exist

### **3.3 Conclusion**

Contractors globalise for various reasons; due to a depressed South African market, to earn hard currency, to exploit emerging markets and to sustain growth, amongst other reasons.

Amid the major players in South Africa each selected Southern African country has been entered into by one or more contractors. The turnovers from these countries in recent years have contributed from 5% to 50% of the company's total turnover.

In terms of the second sub-problem, "what has South African construction companies already experienced when globalising into Southern Africa?" the interviews conducted with major South African construction companies revealed the risks such as late and non-payment, foreign exchange risks, health of workforce, bureaucracy and legal framework, lack of corporate governance, productivity, culture and logistics (a risk which interviewees stressed but was not revealed in the literature review). Most respondents had similar views on risks perceived in particular countries with very few exceptions.

Interviewees highlighted the following opportunities when globalising into Southern Africa: higher returns, donor and foreign aid, rehabilitation construction, tourism, need for housing, schools and hospitals, superior management capability and information technology of South African contractors,

earning foreign revenues and access to a global market. With few exceptions, most respondents had similar views on opportunities perceived in particular countries.

As regards identifying specific risks only more severe than domestic contracting, and opportunities only more favourable than domestic countries, certain countries presented exceptional risks and opportunities while others did not.

The hypotheses that South African construction companies can associate specific experiences to globalisation in Southern Africa has been supported via the research in this chapter, even though it may be to different extents in different countries.

Chapter two researched risks and opportunities relating to globalisation of South African contractors into Southern Africa via a literature review. This chapter researched risks and opportunities via interviews to determine actual experiences in this regard. The following chapter evaluates the risks and opportunities in addition to evaluating each selected SADC country.

## **CHAPTER 4**

### **AN EVALUATION OF SELECTED RISKS AND OPPORTUNITIES IN SELECTED SOUTHERN AFRICAN COUNTRIES**

#### **4.1 Introduction**

Various risks and opportunities associated with globalisation were discovered in the literature. However, additional risks and opportunities were highlighted by the interviewees representing prominent South African construction companies who globalise into the Southern African region. It was thus sensible to evaluate these risks and opportunities, in terms of what construction companies are experiencing in the selected countries.

The intensity of risks and opportunities will differ from country to country and from project to project. Interviewees were therefore requested to rate each country in terms of risks and opportunities. In addition, an analysis was conducted based on the review of the current status of the selected Southern African countries established on key development indicators.

Due to confidentiality assurances to the interviewees, interview results are assessed randomly on company responses received and do not reflect company names or correspond to any orders the companies, who have participated in this study, were listed earlier.

## **4.2 The Evaluation of the Risks**

Interviewees were asked to identify and rate risks when globalising into Southern Africa, without being prompted by the risks already identified by the interviewer during the literature review. The outcome of the rating is as depicted in Table 4.2.1, with 5 being a most severe risk and 1 being least severe risk.



**Table 4.2.1: Risks Evaluation from Market Survey**

<b>Risk</b>	<b>Interviewee 1 Rating</b>	<b>Interviewee 2 Rating</b>	<b>Interviewee 3 Rating</b>	<b>Interviewee 4 Rating</b>	<b>Interviewee 5 Rating</b>	<b>Final Average Rating</b>	<b>Ranking</b>
Late and non payment	5	3	5	5	5	<b>4.6</b>	<b>1</b>
Foreign exchange					4	<b>4.0</b>	<b>2</b>
Health of workforce (Malaria & HIV/AIDS)	3	2		3	4	<b>3.0</b>	<b>3</b>
Taxes and duties (understanding of)				3		<b>3.0</b>	<b>3</b>
Bureaucracy & corporate governance		2		2	4	<b>2.7</b>	<b>4</b>
Productivity risks, training and safety issues				2	3	<b>2.5</b>	<b>5</b>
Culture	3		2			<b>2.5</b>	<b>5</b>
Logistics		1	3		3	<b>2.3</b>	<b>6</b>

*Source: Information abstracted from results of interviews held with major South African construction companies*

All participants, unanimously, agree that late and non-payment is the most severe risk experienced.

The risks identified in the literature review were viewed by some interviewees as “terms of trade” in lieu of a “risk” as such. They agreed that such hurdles do exist, however they were in varying degrees of severity.

### **4.3 The Evaluation of Opportunities**

Interviewees were asked to identify and rate opportunities when globalising into Southern Africa, without being prompted by the opportunities already identified by the interviewer during the literature review. The outcome is depicted in Table 4.3.1, with 1 being the most favourable opportunity and 5 being the least favourable opportunity.

**Table 4.3.1: Opportunities Evaluation from Market Survey**

	<i>Interviewee 1 Rating</i>	<i>Interviewee 2 Rating</i>	<i>Interviewee 3 Rating</i>	<i>Interviewee 4 Rating</i>	<i>Interviewee 5 Rating</i>	<i>Final Average Rating</i>	<i>Ranking</i>
Higher returns					1	1.00	<b>1</b>
Donor Aid	2				2	2.00	<b>2</b>
Reconstruction and rehabilitation		2				2.00	<b>2</b>
Tourism		2			3	2.50	<b>3</b>
Infrastructure and development requirements	3			4	2	3.00	<b>4</b>
Management Capability of SA contractors	3				3	3.00	<b>4</b>
Foreign Exchange Earnings				3		3.00	<b>4</b>
Bigger Market			4			4.00	<b>5</b>

*Source: Information abstracted from results of interviews held with major South African construction companies*

Interviewees varied in their opinions as to the opportunities available in Southern Africa, and some were rather pessimistic. Nevertheless, they continue to venture abroad perhaps to further proximities, and continue to attempt to win projects in Southern Africa.

Certain opportunities identified in the literature review were viewed by some as minimal opportunities, which would not actually materialise in obtaining more work, but perhaps only facilitate other projects.

#### **4.4 The Evaluation of Selected Southern African Countries**

The evaluation of the selected Southern African countries is categorised into the following:

- ◆ The rating of each country in comparison to the risks perceived and experienced in that country by the interview participants as evaluated in Table 4.4.1
- ◆ The rating of each country in comparison to the opportunities perceived and experienced in that country by the interview participants as evaluated in Table 4.4.2
- ◆ The rating of each country in terms of key statistical data reviewed under “The Current Status of Selected Southern African Countries” as evaluated in Table 4.4.3

**Table 4.4.1: Risk Rating and Ranking per Country**

1 = least risky, 5 = most risky

“---“ implies that the company has not worked in that region and could therefore not comment on that country’s risk

<b>Country</b>	<b>Interviewee 1 Rating</b>	<b>Interviewee 2 Rating</b>	<b>Interviewee 3 Rating</b>	<b>Interviewee 4 Rating</b>	<b>Interviewee 5 Rating</b>	<b>Final Average Rating</b>	<b>Ranking</b>
Swaziland	---	---	---	---	1**	<b>1</b>	<b>1</b>
Botswana	1	1	---	2	1	<b>1.25</b>	<b>2</b>
Namibia	---	3	1	2	1	<b>1.75</b>	<b>3</b>
Lesotho	---	5	1	3	2	<b>2.75</b>	<b>4</b>
Malawi	---	2	---	4	3	<b>3.00</b>	<b>5</b>
Mozambique	2	3	3	4	3	<b>3.00</b>	<b>5</b>
Zambia	---	---	3	---	3	<b>3.00</b>	<b>5</b>
Zimbabwe	4	5	2	---	---	<b>3.67</b>	<b>6</b>
Angola	5	---	4	5	5	<b>4.75</b>	<b>7</b>

Source: Information abstracted from interview results with major South African construction companies

\*\*The ranking of Swaziland is questionable due to the low response of company’s experiences there

**Table 4.4.2: Opportunity Rating and Ranking per Country**

1 = most favourable opportunity, 5= least favourable opportunity

“---“ implies that the company has not worked in that region and could therefore not comment on that country’s risk

<b>Country</b>	<b>Interviewee 1 Rating</b>	<b>Interviewee 2 Rating</b>	<b>Interviewee 3 Rating</b>	<b>Interviewee 4 Rating</b>	<b>Interviewee 5 Rating</b>	<b>Final Average Rating</b>	<b>Ranking</b>
Angola	1	---	1	1	1	<b>1.00</b>	<b>1</b>
Mozambique	2	1	4	3	2	<b>2.40</b>	<b>2</b>
Botswana	3	4	---	2	3	<b>3.00</b>	<b>3</b>
Namibia	---	4	5	3	3	<b>3.75</b>	<b>4</b>
Zimbabwe	5	2	5	---	3	<b>3.75</b>	<b>4</b>
Malawi	---	4	---	5	5	<b>4.67</b>	<b>5</b>
Lesotho	---	5	5	5	5	<b>5.00</b>	<b>6</b>
Swaziland	---	---	---	---	5	<b>5.00</b>	<b>6</b>
Zambia	---	---	5	---	5	<b>5.00</b>	<b>6</b>

Source: Information abstracted from interview results with major South African construction companies

**Table 4.4.3 Statistical Data Rating and Ranking per Country**

Country	GDP 1999 (Million US\$ 000 000)	GDP Per Capita 1998 (US\$)	Constr. As a % of GDP (1998)	GDP Real Growth Rate (2000)	Economic Aid Recipient (Million US\$ 000 000) (1995)	Inflation Rates (2000)	Interest Rates (Nov 2002)	Human Develop. Index Ranking	HIV / AIDS Prevalence Rate	Corruption Perception Index	Final Average Ranking
	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Botswana	5,996 2	3,611 1	5.9% 4	6.0% 1	73 8	8.6% 3	16.8% 2	126 3	35.8% 8	6.0 1	<b>3.30</b> 1
Namibia	3,075 6	2,133 2	2.2% 8	4.0% 3	127 6	9.1% 4	17.5% 3	122 1	19.5% 3	5.4 2	<b>3.80</b> 2
Mozambique	3,979 4	188 8	7.6% 2	3.8% 4	781 2	11.4% 5	24.5% 5	170 9	13.2% 1	2.2 6	<b>4.60</b> 3
Lesotho	874 9	486 6	16.2% 1	2.5% 6	124 7	6.0% 1	17.7% 4	132 5	23.6% 5	N/A -	<b>4.89</b> 4
Swaziland	1,223 8	1,409 3	3.9% 6	2.4% 7	55 9	6.4% 2	16.5% 1	125 2	25.3% 7	N/A -	<b>5.00</b> 5
Zambia	3,150 5	388 7	4.9% 5	4.0% 3	1,990 1	27.3% 6	53.3% 8	153 7	20.0% 4	3.4 4	<b>5.00</b> 5
Angola	8,545 1	527 5	6.1% 3	4.9% 2	493 3	325.0% 9	98.5% 9	161 8	N/A -	1.7 7	<b>5.22</b> 6
Zimbabwe	5,608 3	703 4	3.1% 7	-6.1% 8	200 5	200.0% 8	37.5% 6	128 4	25.1% 6	3.0 5	<b>5.60</b> 7
Malawi	1,810 7	166 9	1.8% 9	3.0% 5	427 4	29.5% 7	41.0% 7	137 6	16.0% 2	4.1 3	<b>5.90</b> 8

Source: The above information, apart from the ranking, have been extracted from the information reviewed earlier in this treatise

#### **4.5 Conclusion**

The third sub-problem was to evaluate the severity of the selected risks and the favourableness of the opportunities in addition to evaluating each selected SADC country. The results in this chapter depicts the following.

Risks encountered in the selected Southern African countries have been evaluated as follows in terms of descending severity (with 5 being most severe and 1 being least severe):

- 1 Late and non payment: 4.6
- 2 Foreign exchange risks: 4.0
- 3 Health of workforce (Malaria and HIV/AIDS): 3.0
- 4 Understanding taxes and duties: 3.0
- 5 Bureaucracy, corporate governance and fraud and corruption: 2.7
- 6 Productivity of labour force, training and safety implementation: 2.5
- 7 Culture including language disparity, perception of time and work ethics: 2.5
- 8 Logistics including delivery, availability, border and port congestion, etc: 2.3

Opportunities identified in the selected Southern African countries have been identified as follows in terms of descending favourableness (with 1 being most favourable and 5 being least favourable):

- 1 Higher returns than domestic contracting: 1.0
- 2 Donor and foreign aid: 2.0



- 3 Reconstruction and rehabilitation of dilapidated buildings and infrastructure: 2.0
- 4 Tourism related (hotels and game lodges): 2.5
- 5 Southern Africa's need for infrastructure and development requirements such as houses, schools and hospitals: 3.0
- 6 Superior management capability, information technology and quality production of South African contractors: 3.0
- 7 Foreign exchange earnings of hard currencies: 3.0
- 8 Access to bigger markets internationally: 4.0

Even though each country has its own unique risks and opportunities, should the countries be rated in three equivalent sectors namely, in terms of risks as rated by interviewees, in terms of opportunities as rated by interviewees and in terms of statistical data as identified in Table 4.4.3 above, the result is illustrated in Table 4.5.1.

**Table 4.5.1 Overall Rating and Ranking per Country**

1 = least risky, 8 = most risky alternatively 1 = most favourable, 8 = least favourable

<b>Country</b>	<b>Risk Ranking By Interviewees</b>	<b>Opportunity Ranking By Interviewees</b>	<b>Statistical Data Ranking</b>	<b>Final Average Ranking</b>	<b>Ranking</b>
Botswana	2	3	1	<b>2.00</b>	<b>1</b>
Namibia	3	4	2	<b>3.00</b>	<b>2</b>
Mozambique	5	2	3	<b>3.33</b>	<b>3</b>
Swaziland	1	6	5	<b>4.00</b>	<b>4</b>
Angola	7	1	6	<b>4.67</b>	<b>5</b>
Lesotho	4	6	4	<b>4.67</b>	<b>5</b>
Zambia	5	6	5	<b>5.33</b>	<b>6</b>
Zimbabwe	6	4	7	<b>5.67</b>	<b>7</b>
Malawi	5	5	8	<b>6.00</b>	<b>8</b>

*Source: Abstracts of previous tables in chapter 4 of this treatise*

Thus table 4.5.1 answers the sub-problem of, “Which Southern African countries are easier to globalise into and which are more difficult?”. The reasons for such are the risks and the opportunities that each of these countries offer.

## CHAPTER 5

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

##### 5.1.1 Globalisation

Companies have, for many years, attempted to contract internationally. After the election of a new democratic government in 1994 and the distinct move towards free market thinking in the 1990's, companies, increasingly, yearned to be global players in an attempt to expand their customer base and profitability. Construction companies in South Africa are not much different. Among the reasons to globalise are: depressed local markets, ability to earn hard currency, entrance to a larger market and the perception of greater profitability.

With South Africa being the leading country in the region, what better way to start globalising than to enter the developing region of Southern Africa. However, the results of globalisation have not always come up to expectations as Skeen (1998) expresses, "Entrenched local and international competition has been difficult to beat. It has taken time to adapt to unfamiliar conditions. School fees are being paid, learning curves endured and significant progress is being made. It just isn't as easy as everybody thought it was going to be."

### **5.1.2 The Status of Selected SADC Countries**

The sub-Saharan region hosts the poorest countries in the world. As a result it attracts donor and foreign aid. The region is also marred by political instability with Zimbabwe making current headlines. In addition to the numerous problems, good governance lacks extensively in certain countries, facilitating fraud and corruption.

The Southern African region is rich in natural resources; in particular the mining of minerals and tourism aspects, which have an impact on construction related activities. The sub-Saharan region is also the world's most under-developed region and, as a developing region, the requirements for basic infrastructure, housing, schools and hospitals are extreme.

### **5.1.3 Risks and Opportunities Identified from the Literature Review Associated with Globalisation into Southern Africa**

Risk constitutes a lack of knowledge of future events; an unfavourable event is called a risk. Risk increases with hazard but decreases with safeguard and certainty.

A review of literature identified the following risks:

◆ **Competition:**

- ◇ Certain selected countries have been penetrated and dominated by European, Chinese and Indian contractors. South African construction companies are thus forced to recognise and evaluate competitors other than their usual South African counterparts

◆ Political Stability:

- ◇ Political instability, a distinct feature of developing countries, shy away investors
- ◇ Politics in Southern African countries are very sensitive to the politics of their neighbouring countries and, thus, viewed globally as a politically unstable region
- ◇ Political stability is affected by factors such as political takeover, war, allegations of corruption and nationalisation of assets. Legal risk relate to unexpected changes in government policies pertinent to rules and regulations and currency conversion, absence of appropriate regulatory systems, rates and methods of taxation, including customs, royalties, convertibility of currency, role of local courts in arbitration and the methods by which electricity tariffs are set and approved (Kwak, 2003)

◆ Fraud and Corruption:

- ◇ Southern African countries are cluttered with allegations of corruption and fraudulent dealings, which either disrupt or cancel projects with a negative influence on assistance by means of foreign aid
- ◇ In developing countries, payment from government is mostly uncertain and riddled with various forms of bureaucratic red tape. Late payment from a client causes cash flow problems for contractors and often results into intermittent work (Okema, 2000)

◆ Culture:

- ◇ The failure to consider and incorporate cultural traits in the procurement systems of construction projects in Southern Africa is a major contributor to the generally poor performance on projects (Ofori, 2000)
- ◇ International consultants have different socio-cultural backgrounds compared to the beneficiaries, may not be familiar with local resources and are accustomed to different approaches. This causes conflict of interest, additional pressure on executives, frustration that restrains or obstructs progress and leads to the loss of opportunities, cost overruns and schedule delays
- ◇ There are countries where work gets done through intricate networks of personal contacts. Business is done between friends, relatives and people or groups well known to one another. South Africa is rated to be “Moderately Deal Focussed” whereas the rest of the SADC countries are rated as “Relationship Focussed” in lieu of “Deal Focussed” (Langford, 2000)
- ◇ Attitudes to time: Monochronic cultures are time and schedule obsessed. Polychronic cultures place less emphasis upon strict punctuality and are not obsessed with deadlines. Meetings in monochronic cultures are ordered and agenda driven. Meetings in polychronic cultures are likely to contain meetings within meetings. The developing world is set in a polychronic business culture and the developed world tends to be monochronic. South Africa is said to be

moderately monochronic whereas the other SADC countries are polychronic (Langford, 2000)

- ◇ An abiding theme often runs through the anecdotes of expatriate construction managers, namely, how corrupt a country is in gaining permissions, licences, approvals, etc. What is evident, is that ethical differences have dominated the discussion of cultural difference. Ethical differences do not, universally, manifest themselves as bribery and corruption, but issues of nepotism may be seen as corruption by the north and west of the world and yet strongly rooted in family loyalty in the south and east of the world. Gifts in one culture may be seen to curry favour yet in others are seen as a signal of trust (Langford, 2000)

◆ Foreign Exchange:

- ◇ Without proper management, a small movement in the currency exchange rate can turn an international project from a profit to a loss as foreign exchange rates can be volatile and the changes are difficult to forecast
- ◇ Most developing countries import quite significant amounts of construction materials, equipment and machinery for use in the construction industry, and the balance of payment instability that can occur due to the sharp fall in terms of trade can pose serious risks and uncertainties to projects (Okema, 2000)

◆ Research, Documented Industries and Quality Assurance

- ◇ Information and construction cost in the Sub Saharan region is scarce and uncoordinated. There is very little documented information on the

number of local construction material producers, their locations, their capacities, etc. Additionally, the construction industry in these countries is under researched (Palalani, 2000)

- ◇ The absence of an industry-wide Quality Assurance system and National Standard Specifications means that the quality of products and services is questionable. Enforcement of regulations is not consistent. The results are that construction materials are produced below standards. Being developing countries, they are faced with the challenge of dumping of poor quality merchandise, including construction materials and fittings (Palalani, 2000)
- ◆ The impact of HIV/AIDS:
  - ◇ Infectious diseases threaten not only the health and well being of Africans, but social and political stability and economic productivity. By the end of 1998, nearly 23 million adults and children were estimated to be living with HIV/AIDS in sub-Saharan Africa, accounting for two-thirds of the world's infected persons. More than 1.8 million Africans will die from AIDS in 2003. New infection rates are staggering. Problems extend beyond the health sector. Economists estimate that the shrinking labour pool will slow the continent's economic growth rate by as much as 1.4% yearly for 20 years. HIV/AIDS has raised the cost of doing business. Sub-Saharan Africa accounts for 95% of the 13 million children orphaned by AIDS (www.usaid.gov – 29-01-2003)



◆ General Risks:

- ◇ Late and non-payment: Cash flow problems, work disruption and cancellation of projects is not uncommon due to late and non-payment.
- ◇ Insurance industry risks and uncertainty: On construction projects, there is the essence of a performance guarantee, a demand guarantee, insurance of goods, insurance of works, equipment and workers, etc. in the way of mitigating risk and uncertainty. Each country must therefore be assessed, as in some countries, due to poor performance, clients do not accept insurance bonds and, instead, require a demand guarantee from a reputable bank
- ◇ Procurement of plant and equipment: Due to most developing countries importing major plant and equipment, construction companies should have contingency plans (such as alternative hiring and availability of spare parts) should plant and equipment break down
- ◇ Customs and import restrictions: Prior to globalising, construction companies should assess the countries' customs and import restrictions with regards to getting materials, plant and equipment through customs on time and without unexpected costs and also repatriating it back to South Africa

Whereas risks constitute unfavourable future events, opportunities typically feature favourable future events.

The literature review revealed the following opportunities:

◆ Funding and Foreign Aid:

- ◇ The provision of development funding in Africa is increasing with money from the World Bank, African Development Bank and the European Union being provided as the main contributors
- ◇ In developing countries' governments are still the largest employers in the construction industry and therefore a rise in the government deficit is a direct risk and uncertainty in the construction industry. In some Southern African countries a sizeable part of the debt stock is owed to contractors, material suppliers and consultants in the construction industry. Due to this kind of risk and uncertainties associated with government payment and budget deficit, some contractors would not at all attempt to bid for projects that are mainly financed by government in these countries without major international donor support
- ◇ South Africa has become a highly valued member of the African Development Bank. Each year, South African companies have access to over US\$6 billion in the form of goods, works and consultancy services to Africa through funding by the major multilateral donor agencies such as the World Bank, International Monetary Fund, USAID, United Nations, African Development Bank and the European Union. The World Bank is disbursing some US\$2,8 billion in sub-Saharan Africa annually, while the African Development Bank's annual work programme stands at about US\$2,5 billion (Thompson, 2000).

- ◆ Information Technology and Management Capability:
  - ◇ Technologically speaking, the previous era of globalisation was built around falling transportation costs. Today's era is built on falling telecommunications cost resulting from the development of the microchip, fibre optics, satellites and the internet
  - ◇ South African construction companies are concentrating more on the management of construction projects rather than the actual construction. There is a visible shift from a traditional procurement system toward a management contracting service. Management of technical skills are easier to export than labour and machinery. Shor (2000) found that the perception is that South African construction companies' technical and managerial skills are internationally competitive. These companies should follow the Japanese example by offering technical and managerial skills to its neighbouring countries
- ◆ Associations and Joint Ventures:
  - ◇ South African construction companies could associate with other experienced contractors or else form joint ventures for specific projects
  - ◇ A contractor might anticipate gaining overseas experience by working on subcontracts let by other main contractors
  - ◇ A contractor determined to work over its own border could initiate a subsidiary and build up a reputation on smaller contracts
  - ◇ Companies could also build a reputation on the types of domestic work that they specialise in

- ◇ Companies could venture into areas where international competitors are equally inexperienced
- ◆ Advance Payments:
  - ◇ Working capital (bridging finance) is the amount by which the revenue curve falls below the cumulative cost curve. It demarcates the extent of the contractor's liability. An international contract often involves a greater number of costs, compared to domestic contracts, contributing towards the total cost of a project. A typical list of such items will consist of pre-contract expenditure for the cost incurred in travelling, negotiating and tendering, insurance premiums, expenses for site establishment and mobilising plant, labour, material, sub-contractors, site salaries and international overheads. Other incidental costs may include additional handling or freight charges and loss of purchases if import licences are cancelled or delayed. It is not unusual for contractors to expect better terms of payment to be negotiated with foreign employers, thus reducing the working capital requirement and perhaps even rendering the contract self-financing
- ◆ General
  - ◇ South African consultants have, over the years, earned themselves a high reputation amongst foreigners and may also open doors in the foreign countries for the local contracting companies whom they are used to working with in South Africa

- ◇ Contracting companies from developing countries are less probable to expand and thus makes South African construction companies the best regional competitor
- ◇ It appears that geographical distance of the works is not a constraint when a firm considers bidding abroad. As long as a project requires transport across a country's border, it will necessitate documentation, freight and insurance charges, whether the site is one or ten thousand kilometres away
- ◇ Contractors have their preferences in the choice of international markets, one of these is countries rich in natural resources. These countries offer opportunities in the exploitation of minerals, etc. and would thus demand expansion of infrastructure. Revenue generated by sale of the natural resources support construction work associated with building an industrial economy in addition to development programmes in housing, health, transport and education
- ◇ Globalisation brings along new marketing possibilities by accessing new markets, leading to future profits (once the learning curve is favourable). Ground is gained on the opposition and one's own share of the general market is increased (Basson, 2001)
- ◇ Construction companies can gain an improved image in the market. A company that has established itself in a new market, may become a market leader and will be able to present an improved *curriculum vitae* for future work. Quality personnel can be recruited due to the

enhanced image. Furthermore it could be a base for future growth (Basson, 2001)

- ◇ Challenging work, new expertise and experience, and being part of an aggressive company could also motivate personnel and stimulates the culture of the company (Basson, 2001)
- ◇ As CEO of Group Five, Mike Lomas, says that they decided to expand into the global market due to depressed local markets, amongst other reasons. Globalisation can help alleviate the cyclical economic impact of the South African construction industry on the company's turnover and profit

#### **5.1.4 The International Experience of the Risks and Opportunities Associated with Globalisation into Southern African Countries**

The interviewees' international experience, to a large extent, has been reflected in the literature review, however some additional risks were highlighted. The risks discussed specifically by the interviewees are as follows:

- ◆ Late payment and non-payment: This affects continuity of work and profitability of the project. It is the greatest risks perceived unanimously by all participants. Even though contracts may make provision for upfront payment, sometimes the upfront payment is utilised within the first three months and further interim payments are then not forthcoming. This problem is perceived for both public sector and private sector clientele.
- ◆ Foreign exchange: A risk in terms of the ability to predict profits and losses, especially, when payment is made and received in several different

currencies. In addition, the availability of foreign exchange in the countries could sometimes be of concern

- ◆ Health of the workforce: This is a major concern, especially, in the Southern African region where malaria is prevalent. Apart from affecting the general workforce, this affects expatriates from South Africa to the Southern African countries who either refuse to work on these projects or request additional remuneration for such risks. In addition to Malaria, HIV/AIDS is fast becoming a huge concern affecting the productivity of workers
- ◆ Bureaucracy and legal framework: This is especially prevalent in ex-Portuguese colonies such as Angola and Mozambique. The requirements are often frustrating and difficult to understand and accomplish
- ◆ Lack of corporate governance: In a number of countries the lack of corporate governance does not assist in alleviating the problem of fraud and corruption, which exist in a number of countries. It creates significant hurdles in trying to achieve a successful project
- ◆ Productivity risks: Productivity risks are encountered particularly when there is inexperienced and unskilled labour. Until the company commences work in the area, the company is at risk in terms of determining exactly how productive the workforce would be, in terms of timely completion and quality of work, which ultimately affects costs. Training of local labour depends on their competency level, and to a certain extent, their culture in terms of work ethic. Safety is essential to any reputable construction company and, most frequently, construction workers in the selected countries are not safety conscious to the extent that South African construction companies insist on

- ◆ Cultural diversity: Dealing with and understanding different cultures, either when conducting business at an advanced level or when instructing or guiding a workforce poses a risk. Cultural issues include those of language disparity, work ethic, time perception and attitude towards safety
- ◆ Logistics: This comprise of timely delivery of materials, import and custom duties and custom clearance and port congestion, overcoming hurdles at borders, obtaining necessary permits, labour availability and expertise, equipment and spares availability, mobilising staff and plant, understanding taxes and duties (sometimes hidden), condition of existing infrastructure affecting delivery, etc.

The interviewees' international experience, to a large extent, has been reflected in the literature review, however the following particular opportunities were highlighted by the interviewees:

- ◆ Higher returns: There is an opportunity to earn higher returns than domestic projects would allow
- ◆ Donor and foreign aid: As the Southern African region is one of the poorest regions in the world, it attracts donor and foreign aid for various projects
- ◆ Rehabilitation construction: Reconstruction and development of dilapidated buildings due to war or neglected maintenance has potential for South African contractors to tender on
- ◆ Tourism: The region presents opportunities for hotels, game lodges, etc



- ◆ Need for housing, schools, hospitals and infrastructure: An extensive need exists in Southern Africa for basics such as housing, schools, hospitals and infrastructure
- ◆ Superior management capability and information technology by South African contractors: The South African construction industry is relatively superior, with regards to management capability, information technology and quality, and this facilitates contractors being more competitive in the Southern African region
- ◆ Earning foreign revenues: An opportunity exists to earn foreign revenues, especially, in countries rich in natural resources such as oil, gas and other minerals
- ◆ Access to a larger global market: By conducting cross-border business this is achievable

#### **5.1.5 An Analysis of the Risks and Opportunities in each Selected SADC Country**

Risks and opportunities were identified for each country from both the literature review and the interviews. Table 5.5.1 summarises the specific risks and opportunities identified for Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe from the literature reviewed and from the interviews held with representatives of the leading South African construction companies.

**Table 5.5.1 Summary of Risks and Opportunities per Country**

<b>Country</b>	<b>Summary of risks from literature review</b>	<b>Summary of risks from interview results</b>	<b>Summary of opportunities from literature review</b>	<b>Summary of opportunities from interview results</b>
Angola	<ul style="list-style-type: none"> <li>◆ Political instability due to war and fighting</li> <li>◆ Lack of infrastructure</li> <li>◆ Shortage of building materials</li> <li>◆ Sporadic provision of water and electricity</li> <li>◆ CGIC offers no insurance</li> <li>◆ Ethnic diversity and language disparity</li> </ul>	<ul style="list-style-type: none"> <li>◆ Late and non-payments</li> <li>◆ Cultural issues and language disparity</li> <li>◆ Logistics (delivery, availability, port congestion, status of existing infrastructure)</li> <li>◆ Bureaucracy and fraud and corruption</li> <li>◆ Landmines (but mainly for civil engineering construction projects)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Government encourages Joint ventures and associations</li> <li>◆ Potential for restoring buildings</li> <li>◆ Need for housing, schools and hospitals</li> </ul>	<ul style="list-style-type: none"> <li>◆ Mining (Oil &amp; Gas) related opportunities</li> <li>◆ Rehabilitation and reconstruction of infrastructure developmental needs</li> </ul>

<b>Country</b>	<b>Summary of risks from literature review</b>	<b>Summary of risks from interview results</b>	<b>Summary of opportunities from literature review</b>	<b>Summary of opportunities from interview results</b>
Botswana	<ul style="list-style-type: none"> <li>◆ Foreign competitors dominant in Botswana</li> <li>◆ BHC fraud and corruption scandal</li> <li>◆ Limited storage space at border posts</li> </ul>	<ul style="list-style-type: none"> <li>◆ Technical issues (availability of water, etc in remote areas)</li> <li>◆ Fraud and Corruption relating to BHC</li> </ul>	<ul style="list-style-type: none"> <li>◆ Economically stable</li> <li>◆ Infrastructure well developed</li> <li>◆ Tourism growth</li> <li>◆ Potential for light industrial sector (factory construction)</li> <li>◆ Definite plans for expanding educational facilities</li> <li>◆ Insurance cover is available</li> <li>◆ Exchange controls have been abolished</li> <li>◆ Botswana is a member of the SACU</li> </ul>	<ul style="list-style-type: none"> <li>◆ Stable economy</li> <li>◆ Possible capital of the SADC region</li> <li>◆ Mining related opportunities</li> <li>◆ Tourism</li> </ul>

<b>Country</b>	<b>Summary of risks from literature review</b>	<b>Summary of risks from interview results</b>	<b>Summary of opportunities from literature review</b>	<b>Summary of opportunities from interview results</b>
Lesotho	<ul style="list-style-type: none"> <li>◆ Politically instable</li> <li>◆ Limited opportunities, apart from hydro-electrical power development</li> </ul>	<ul style="list-style-type: none"> <li>◆ Political risks</li> <li>◆ Negative attitude of workers towards South Africans</li> </ul>	<ul style="list-style-type: none"> <li>◆ Completely surrounded by SA</li> <li>◆ Tourism promising, but limited</li> <li>◆ Lesotho is a member of the CMA and SACU</li> </ul>	<ul style="list-style-type: none"> <li>◆ No outstanding opportunities were highlighted by interviewees</li> </ul>
Malawi	<ul style="list-style-type: none"> <li>◆ Landlocked</li> <li>◆ Poor economy</li> <li>◆ Late and non-payment interrupting projects' continuity</li> </ul>	<ul style="list-style-type: none"> <li>◆ Poor country with weak currency</li> <li>◆ Late and non-payments</li> <li>◆ Fraud and corruption</li> <li>◆ Cost of establishing is exorbitant</li> </ul>	<ul style="list-style-type: none"> <li>◆ CGIC does offer insurance</li> <li>◆ Poverty problem attracts foreign aid</li> <li>◆ Government has incentives to encourage tourism</li> </ul>	<ul style="list-style-type: none"> <li>◆ No outstanding opportunities were highlighted by interviewees</li> </ul>

<b>Country</b>	<b>Summary of risks from literature review</b>	<b>Summary of risks from interview results</b>	<b>Summary of opportunities from literature review</b>	<b>Summary of opportunities from interview results</b>
Mozambique	<ul style="list-style-type: none"> <li>◆ Independence brought crisis, with capital, machinery and managerial resources leaving the country</li> <li>◆ Most aid dependent country in the world</li> <li>◆ Building material and equipment to be imported from SA</li> <li>◆ High insurance premiums</li> </ul>	<ul style="list-style-type: none"> <li>◆ Logistics (delivery, availability and condition of existing infrastructure)</li> <li>◆ Late and non-payment</li> <li>◆ Cultural issues including language disparity, perception of safety, etc.</li> <li>◆ Lack of promptness and timeliness</li> <li>◆ Lack of local skills and training is required</li> <li>◆ Recovery of taxes</li> <li>◆ Rand / Metical exchange rate disparities</li> </ul>	<ul style="list-style-type: none"> <li>◆ Foreign aid inflow</li> <li>◆ Nelspruit Maputo corridor increased trade with S.A. improving economy</li> <li>◆ Port development potential</li> <li>◆ Rich potential for tourism</li> <li>◆ Potential for factories</li> <li>◆ Renewed impetus given to national construction programmes</li> <li>◆ Mozal Smelter has given the economy a boost</li> </ul>	<ul style="list-style-type: none"> <li>◆ Infrastructure development requirements</li> <li>◆ Tourism</li> <li>◆ Housing, schools and hospital needs</li> </ul>

<b>Country</b>	<b>Summary of risks from literature review</b>	<b>Summary of risks from interview results</b>	<b>Summary of opportunities from literature review</b>	<b>Summary of opportunities from interview results</b>
Namibia	<ul style="list-style-type: none"> <li>◆ SWAPO government has retained its political dominance</li> <li>◆ Physical and geographic features are harsh</li> <li>◆ Water is scarce</li> <li>◆ Foreign competitors have infiltrated Namibia already</li> </ul>	<ul style="list-style-type: none"> <li>◆ Obtaining work permits</li> <li>◆ Lack of local skills and experience</li> </ul>	<ul style="list-style-type: none"> <li>◆ Need for housing exists</li> <li>◆ Need for schools exists</li> <li>◆ Adequate infrastructure is available</li> <li>◆ Namibia is a member of the CMA and SACU</li> </ul>	<ul style="list-style-type: none"> <li>◆ Housing, schools and hospital needs</li> </ul>
Swaziland	<ul style="list-style-type: none"> <li>◆ Serious socio-economic problems exist</li> <li>◆ Highly dependent on SA for its electrical power</li> <li>◆ European competitors also dominate the industry</li> </ul>	<ul style="list-style-type: none"> <li>◆ No special risks were highlighted</li> </ul>	<ul style="list-style-type: none"> <li>◆ Swaziland is a member of the CMA and SACU</li> <li>◆ CGIC does provide insurance cover</li> <li>◆ Landlocked by SA thus logistically favourable</li> <li>◆ Housing need exists</li> <li>◆ Clinic renovations</li> </ul>	<ul style="list-style-type: none"> <li>◆ No outstanding opportunities were highlighted by interviewees</li> </ul>

<b>Country</b>	<b>Summary of risks from literature review</b>	<b>Summary of risks from interview results</b>	<b>Summary of opportunities from literature review</b>	<b>Summary of opportunities from interview results</b>
Zambia	<ul style="list-style-type: none"> <li>◆ Totally landlocked by other countries</li> <li>◆ Limited opportunities for tourism</li> <li>◆ Little construction work and few private clients exist</li> <li>◆ Infrastructure in need of rehabilitation</li> </ul>	<ul style="list-style-type: none"> <li>◆ Logistics (delivery, availability and condition of existing infrastructure)</li> <li>◆ Legalistic requirements are stringent</li> </ul>	<ul style="list-style-type: none"> <li>◆ CGIC does provide insurance cover</li> <li>◆ Exchange controls act have been abolished</li> <li>◆ Foreign aid available</li> <li>◆ Need for housing, schools and hospitals exist</li> </ul>	<ul style="list-style-type: none"> <li>◆ No outstanding opportunities were highlighted by interviewees</li> </ul>

<b>Country</b>	<b>Summary of risks from literature review</b>	<b>Summary of risks from interview results</b>	<b>Summary of opportunities from literature review</b>	<b>Summary of opportunities from interview results</b>
Zimbabwe	<ul style="list-style-type: none"> <li>◆ Political turmoil</li> <li>◆ Unstable environment for investments</li> <li>◆ Shortage of fuel</li> <li>◆ Inflation and interest rates are exorbitant</li> <li>◆ Law of country is unreliable</li> <li>◆ Land reclamation</li> <li>◆ Insurance costs are astronomical</li> <li>◆ Insufficient foreign exchange</li> <li>◆ Shortage of skills in the building industry</li> <li>◆ Enormous expropriation risks</li> </ul>	<ul style="list-style-type: none"> <li>◆ Politics</li> <li>◆ Inflation rate and fuel prices</li> <li>◆ Interest rates</li> <li>◆ Lack of foreign exchange</li> <li>◆ Staff insecurity a concern</li> </ul>	<ul style="list-style-type: none"> <li>◆ Venture where no one else dares</li> </ul>	<ul style="list-style-type: none"> <li>◆ Interviewees maintained that should the political regime change, their would be huge opportunities for South African contractors in this market</li> </ul>



## 5.2 Conclusion

The research in this treatise enabled the researcher to evaluate the severity of risks and the favourableness of opportunities. The research also enabled the researcher to rank each of the selected SADC countries in terms of ease of globalising due to risks, opportunities and the country's current socio-economic status.

Risks encountered in the selected Southern African countries have been evaluated as follows in terms of descending severity (with 5 being most severe and 1 being least severe):

- 1 Late and non payment: 4.6
- 2 Foreign exchange risks: 4.0
- 3 Health of workforce (Malaria and HIV/AIDS): 3.0
- 4 Understanding taxes and duties: 3.0
- 5 Bureaucracy, corporate governance and fraud and corruption: 2.7
- 6 Productivity of labour force, training and safety implementation: 2.5
- 7 Culture including language disparity, perception of time and work ethics: 2.5
- 8 Logistics including delivery, availability, border and port congestion, etc: 2.3

Opportunities identified in the selected Southern African countries have been identified as follows in terms of descending favourableness (with 1 being most favourable and 5 being least favourable):

- 1 Higher returns than domestic contracting: 1.0
- 2 Donor and foreign aid: 2.0
- 3 Reconstruction and rehabilitation of dilapidated buildings and infrastructure: 2.0
- 4 Tourism related (hotels and game lodges): 2.5
- 5 Southern Africa's need for infrastructure and development requirements such as houses, schools and hospitals: 3.0
- 6 Superior management capability, information technology and quality production of South African contractors: 3.0
- 7 Foreign exchange earnings of hard currencies: 3.0
- 8 Access to bigger markets internationally: 4.0

The purpose of this study was to evaluate selected risks and opportunities associated with globalisation of South African construction companies into Southern Africa. In other words: "Which Southern African countries are easier to globalise into and which are more difficult? Why is it so?"

The preceding paragraphs evaluate the selected risks and opportunities associated with globalisation of South African construction companies into Southern Africa. In terms of, "Which Southern African countries are easier to globalise into and which are more difficult? Why is it so?" the results of this research lead to the following ranking of the countries with 1 being most easy to globalise into and 6 being most difficult to globalise into:

- 1 Botswana: 2.00
- 2 Namibia: 3:00
- 3 Mozambique: 3.33
- 4 Swaziland: 4.00
- 5 Angola: 4.67
- 6 Lesotho: 4.67
- 7 Zambia: 5.33
- 8 Zimbabwe: 5.67
- 9 Malawi: 6.00

The reason it is easier to globalise into some countries than it is to globalise in other countries is that certain countries pose more severe risks than others, certain countries have more favourable opportunities than others and the country's socio-economic status also impacts on construction in that economy.

#### **5.4 Recommendations**

International contracting may offer significant opportunities but is not without noteworthy risks either. Contractors may gloat on success stories internationally but there are those who have had nightmares as well. There are school fees to be paid when venturing into unknown territory, but companies can investigate, plan and manage well to materialise their dreams. So what does it take to be more effective in a Southern African Country?

Each project will have to be assessed on its own merit. However, the following words of advice were offered by representatives of leading construction companies, for those venturing into Southern Africa:

- ◆ Everything takes more time and costs more
- ◆ Complete agreement and full consensus must be achieved within an organisation to strategically decide to venture abroad and into which countries. The projects will require 100% commitment and dedication of management and staff in order to be successful and profitable
- ◆ “The grass isn’t greener on the other side,” said one interviewee. The potential risks are much higher than those possibly encountered domestically
- ◆ Take time to understand the local climate and environment. “If someone wants something today, let someone else do it!” said one interviewee, emphasising that the decision to enter such markets should not be rushed
- ◆ Find out “who” is going to pay, “how” they will be paying, “when” will they be paying and, most importantly, are they capable of paying
- ◆ Apart from bricks, sand and cement most materials will have to be imported. In addition, if quality structural concrete is imperative, then the cement would also have to be imported. Thus, proper planning considering logistics is essential
- ◆ Contractual terms and, more specifically, payment terms must be fully assessed prior to the conclusion of a contract
- ◆ Close proximity to South Africa does assist, considering the large amount of materials, equipment and labour imported from South Africa

- ◆ Be weary of possible logistic problems that may be encountered, and plan for such, including that of lack of skills. One has to learn to be more patient as things materialise at a different pace compared to home territory. Pay lots of attention to logistics
- ◆ Anticipate impacts of foreign exchange currencies and fluctuations
- ◆ It is advised that payment must be received in the currency in which the contractor will actually pay out. For example, if the contractor is purchasing items from South Africa he would want to be paid in Rands for that component and if he pays labour in a local currency (for instance Meticals) he would want local currency (Meticals) for that component
- ◆ If joint ventures or partnerships are formed, it is essential to find partners that add value, not merely for political reasons. These joint ventures or partnerships should understand clearly what the South African contractor requires them for. Risks should be balanced with input

Some useful rules of thumb shared by interviewees are:

- ◆ Be patient! Most things take a lot time to materialise
- ◆ Everything costs more and takes more time to happen than compared to South Africa
- ◆ Allow for an extra month to three months just to establish onto site
- ◆ Become “street wise”: Advance payment does not really appear to be reducing risks, as most often than not, the client tends to default on payment within the first few months of the project. A more acceptable condition to settle for is a payment guarantee

- ◆ Angola: anticipate costs to be approximately 2 to 3 times higher than in South Africa
- ◆ Botswana: price as though it is a project in South Africa, then use the same values, however, adjust the currency symbols by merely inserting Pula's and Thebe in lieu of Rand and Cents. For example an item costing R100.00 in South Africa is likely to cost P100.00 in Botswana, obviously noting that the Pula is a stronger currency than the Rand
- ◆ Lesotho: anticipate costs to be approximately 1,3 times higher than in South Africa
- ◆ Malawi: anticipate costs to be approximately 2 times higher than in South Africa
- ◆ Mozambique: anticipate costs to be approximately 1,2 to 2 times higher than in South Africa, depending on where the actual construction site is, as some areas in Mozambique are extremely remote with no infrastructure leading to them
- ◆ Namibia: anticipate costs to be approximately 1 to 1,5 times higher than in South Africa

The expansion of a business into a global arena and earning hard currency is attractive. However globalisation offers both risks and opportunities. Southern Africa is a unique market compared to the rest of the world.

Interviewees have confirmed that there is a learning curve. But there also appears to be enough optimism that once the learning curve is surpassed, profitability is not too distant.

The learning curve can be shortened (time wise) and eased if companies assess risks and opportunities relating to globalisation, and more specifically, relating to the specific country they are going to globalise into.

South African construction companies who intend to globalise into Southern Africa should simply:

Investigate, Plan and Manage for Success!

#### **5.4 Scope for Further Research**

This research is based on the risks and opportunities in selected SADC countries. There is scope for further research in terms of:

- ◆ Evaluating and quantifying the amount (in terms of value) of possible future projects which the South African contractors would be able to or qualify for tendering, including identifying all available foreign aid funding
- ◆ A similar treatise but researched on the civil engineering construction industry as this treatise was based on the building construction industry
- ◆ A similar treatise but researched on the remainder of the SADC countries (which have not been included in this treatise)

- ◆ A similar treatise but researched on the selected African countries where South African contractors have already ventured, for example Nigeria and Morocco
- ◆ A similar treatise but researched on the countries in the Middle East



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**Brochures Consulted**

The brochures of the following companies were consulted:

- Group Five (Pty) Ltd
- Wilson Bayly Holmes Ovcon
- Grinaker an Aveng Group Company
- Murray and Roberts
- Basil Read

**Interviews Conducted – Unpublished Communication**

Interviews were conducted with the following representatives of major construction companies:

1. Bantam, H., Group Executive Director of Group Five, 2003 – personal communication
2. Johnston, J., Business Development Manager of Basil Read, 2003 – personal communication
3. Nieman, H., Murray and Roberts; International Business Development, 2003 – personal communication
4. Skeen, G., Managing Director of Grinaker / LTA Building, 2003 – personal communication
5. Sprott, M., Director at Wilson Bayly Holmes Ovcon, 2003 – personal communication



## **ANNEXURE A: STRUCTURED INTERVIEW QUESTIONS / ITEMS FOR DISCUSSION**

Company: \_\_\_\_\_

Person

Interviewed: \_\_\_\_\_ Date: \_\_\_\_\_

### **Introduction:**

- ◆ The time taken to participate in this interview is much appreciated and will contribute significantly to the findings of this research
- ◆ This research is to partially fulfil the requirements towards an MSc (Project Management) at the University of Pretoria.
- ◆ The treatise is titled: **Selected Risks and Opportunities Associated with Globalisation of South African Construction Companies into Southern Africa**
- ◆ The questions are classified into five categories:
  - Globalisation (why globalise?)
  - Globalisation into Southern Africa (Which countries are you globalising into and to what extent?)
  - Risks (the risks that you have encountered when globalising into Southern Africa and a rating for each of the countries)
  - Opportunities (the opportunities they you managed to exploit when globalising into Southern Africa and a rating for each of the countries)
  - Advice (any word of advice or rule of thumb you could offer for globalising)

**Note :** All information will be treated as strictly confidential as to the company it was obtained from.

### **Globalisation:**

1. Why do you venture aboard?

- Strategic considerations
  - To maintain growth and expansion (aggressive)
  - To protect shareholders (defensive)

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2. Is international contracting more profitable than contracting domestically?  
(How much more / less as a rough percentage?)

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**Globalisation into Southern Africa:**

3. Which of the following SADC countries has your company contracted in?

- Angola
- Botswana
- Lesotho
- Malawi
- Mozambique
- Namibia
- Swaziland
- Zambia
- Zimbabwe

4. What were the values of the contracts for construction in a particular SADC country for the last 3 years? Who in your company could perhaps give me these details?

2000 : R \_\_\_\_\_ % of Total Turnover \_\_\_\_\_  
2001 : R \_\_\_\_\_ % of Total Turnover \_\_\_\_\_

2002 : R \_\_\_\_\_ % of Total Turnover \_\_\_\_\_

**Risks:**

5. What are the general risks that you encounter when globalising into the SADC region:

(Measure of seriousness? Rating 1 to 5 relative to domestic or each other?)

◆ Political \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

◆ Legal \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

◆ Cultural \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

◆ Foreign Exchange \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

◆ Import duties, custom duties, custom clearance and port congestion  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

◆ Equipment and spares availability \_\_\_\_\_

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◆ Labour availability and expertise \_\_\_\_\_

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◆ Competitors \_\_\_\_\_

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◆ Fraud & Corruption \_\_\_\_\_

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◆ Other (state) \_\_\_\_\_

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◆ Other (state) \_\_\_\_\_

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6. What specific risks would you relate to specific SADC countries? (just ones higher than “normal or domestic”

◆ Angola \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

◆ Botswana \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

◆ Lesotho \_\_\_\_\_  
\_\_\_\_\_  
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◆ Malawi \_\_\_\_\_  
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◆ Mozambique \_\_\_\_\_  
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◆ Namibia \_\_\_\_\_  
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◆ Swaziland \_\_\_\_\_  
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◆ Zambia \_\_\_\_\_  
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\_\_\_\_\_

◆ Zimbabwe \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. With regard to (total?) risks how would you rate the countries that you have contracted in: 1 being the least risky and 5 being the most risky.

- Angola
- Botswana
- Lesotho
- Malawi
- Mozambique
- Namibia
- Swaziland
- Zambia
- Zimbabwe

**Opportunities:**

8. What are the general opportunities that you encounter when globalising into the SADC region: (Measure of attractiveness? Rating 1 to 5 relative to domestic or each other?)

◆ Foreign Aid

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◆ Labour

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◆ Joint Ventures / Associations

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- ◆ Information technology \_\_\_\_\_  
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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  - ◆ Management Capability \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  - ◆ Other (state)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  - ◆ Other (state)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  - ◆ Other (state)  
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\_\_\_\_\_  
\_\_\_\_\_

- ◆ Other (state)

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9. What specific opportunities would you relate to specific SADC countries?  
(just ones higher than “normal or domestic”)

- ◆ Angola

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- ◆ Botswana

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- ◆ Lesotho

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- ◆ Malawi

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- ◆ Mozambique

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- ◆ Namibia

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- ◆ Swaziland

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- ◆ Zambia

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◆ Zimbabwe \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

10. With regard to (total?) opportunities, how would you rate the countries that you have contracted in: 1 being most favourable and 5 being least favourable.

- Angola
- Botswana
- Lesotho
- Malawi
- Mozambique
- Namibia
- Swaziland
- Zambia
- Zimbabwe

**Advice:**

11. Any word of advice or rules of thumb for contractors globalising into the SADC region?

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**Conclusion:**

- ◆ Thank you for your time. It is much appreciated. The interview has been very fruitful and has revealed valuable information contributing significantly to this research

Would you like a copy of the findings of this research?

If yes :      Your e-mail :

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Fax no      : \_\_\_\_\_