Executive Summary

The cidb’s vision for the construction industry is:

Our vision is of a transformed construction industry that delivers sustainable value in a manner that is responsive to the socio economic needs of South Africa.

This vision is supportive of the construction industry exploiting its strengths in the African and global market.

The continuing growth and prosperity of Africa will swell the demand for infrastructure. South African contractors are well positioned to contribute to the development of infrastructure in Africa, and South African contractors have notable competitive advantages in providing basic infrastructure on the African continent. Expanding into international and cross-border construction markets is an essential growth strategy for many South African construction companies.

While many of the large South African contractors have demonstrated that they are capable of competing with the best in the world, the challenge is to broaden the base of contractors that can compete in Africa and to compete internationally. This will raise the competitiveness of the industry as a whole, enhance value for money to clients and to society, and contribute to economic growth of South Africa.

But many contractors are still addressing impediments of the past and have effectively been excluded from competing in the local market. Africa also needs to be a market for South African emerging contractors – and specific attention and support structures need to be put in place to support the participation of the emerging sector.

The cidb commits to supporting this vision for a transformed construction industry that is international competitive, and that contributes to the development of Africa. The cidb seeks to work with industry to achieve this vision.

In line with the CIDB Act and its mission, the cidb has therefore undertaken this feasibility study on Export of Contracting Services.

A key recommendation arising from this study is that the cidb facilitates the establishment of an export council for contracting services, which is recognised by the dti. This export council could be constituted as a standalone export council, or could be incorporated into the Built Environment Professions Export Council (BEPEC) by broadening its mandate and membership to include the contracting sector – drawing from the established industry associations of BBCBE, MBSA (and the MBAs), and SAFCEC.

It is further recommended that the cidb investigates providing support to this Export Council, including:

- establishing a cidb information centre on cross-border opportunities, including providing access to information, and high level country reports;
- providing export business advisory and/or capability building services to emerging contractors, where possible in partnership with established contractors; and
- cidb participation in Export Council business delegations and trade shows, to build and maintain its capacity in export promotion to the benefit of the construction industry.

It is recommended that specific consideration are given to capacity building services to emerging contractors that could include providing access to subsidised services to improve the skills needed for cross-border activities.

Furthermore, the study recommends that the cidb should focus specifically on facilitating access of emerging contractors to cross-border activities, such as:

- providing advice and support the dti in its goal of enhancing black participation in the dti Export Marketing and Investment Assistance (EMIA) Scheme and the dti Capital Projects Feasibility Programme (CPF);
- exploring the establishment of recognition schemes or offset schemes for established contractors to work with black-owned contractors in cross-border activities;
- in partnership with industry associations, facilitate emerging contractors to create appropriate business relationships with established contractors; and
- in collaboration with State-Owned Companies (SoCs) and developers.
Table of Contents

Executive Summary i

1. Background and Introduction 2
   1.1 Background and Objectives 2
   1.2 Study Methodology 3
   1.3 Structure of Report 3
   1.4 Acknowledgements 4

2. Overview of Global and African Construction Markets 4
   2.1 Global Construction Market 4
   2.2 African Construction Market 7
   2.3 South African Companies in Global Construction 9
   2.4 Survey Results 12
   2.5 Summary and Conclusions 14

3. Obstacles and Constraints to Market Entry 10
   3.1 Obstacles to International Construction 10
   3.2 Obstacles to Construction in Africa 12
   3.3 Survey Results 14
   3.4 Summary and Conclusions 17

   4.1 Entry Strategies 15
   4.2 Enterprise Factors 16
   4.3 Survey Results; Entry Strategies 17
   4.4 Survey Results; Enterprise Factors 19
   4.5 Summary and Conclusions 20

5. Export Promotion Services 21
   5.1 Towards an Export Promotion Service (the dti) 21
      i) Department of Trade and Industry (the dti) 21
      ii) Built Environment Professions Export Council (BEPEC) 22
      iii) NSW International Engagement Strategy 23
      iv) International Enterprise Singapore 24
   5.2 Survey Results 24
   5.3 Summary and Conclusions 25

6. Conclusion and Recommendations 26
   6.1 Africa is a Market for Construction 26
   6.2 Supporting the Vision 27
1. Background and Introduction

1.1 Background and Objectives

At the 2014 Summit on 20 years of Economic Freedom, deputy president Kgalema Motlanthe addressed delegates by detailing how the current democratic state can be proud of what has been achieved but should also recognise its failures.

"Since 1994, the South African economy has grown at an average rate of more than three percent a year. To put this in perspective, in the 15 years before democracy, growth was under 1,5 percent a year. Employment has grown by around 4,5 million (approximately 45 percent). In contrast, the economy generated almost no new jobs from the late 1970s through 1994," he said.

"In 1994 the rate of investment was less than 15 percent of gross domestic product. Today, the figure is over 19 percent. Especially since 2005, investment has been underpinned by a multi-billion-rand outlay in infrastructure, which is laying the foundations for faster and more inclusive growth in the future."

However, the global financial crisis, global depressed growth, recent cutbacks in the US quantitative easing, labour strike action in the mining sector, and constraints in the public sector have created difficult market conditions for the South African construction industry. Coming of the high levels leading up to the 2010 World Cup, business confidence in both the building and civil engineering sectors now remains around or below the 50% level – a sign of an industry under distress.

As a result of the difficult business conditions, the pace and depth of transformation is being negatively affected.

In the face of the difficult business conditions, many of the larger contracting companies have intensified their international focus, and Africa is receiving increasing attention by contractors. However, while this focus on international construction is welcomed and encouraged, opportunities for international construction, and in particular cross-border activities into Africa, also need to be created for the emerging contracting sector.

The CIDB Act recognises and provides for the cidb to support the international competitiveness of the construction industry, and the Act specifically provides for the cidb to promote export of construction goods and services (§5.5(d)).

Against this background, the cidb undertook this feasibility study on Export Promotion of Contracting Services which seeks to explore the opportunities of exporting construction services of cidb Grades 6 to 9 registered contractors, with a focus on supporting the development of black-owned contractors.

1.2 Study Methodology

This feasibility study is based extensively on a study undertaken by the Department of Construction Economics and Management of the University of Cape Town that the cidb commissioned for this purpose. This feasibility study was based on the local and international literature on international construction and the African market, questionnaire survey of cidb registered Grade 5 to 9 contractors and face to face interviews.

1.3 Structure of Report

The structure of the report is outlined below:

- Section 2 provides an overview of the global and African construction markets, and notes that while the construction market in Africa is small in...
terms of the global construction spend, several countries in sub-Saharan Africa are forecasted to achieve an average annual real growth rate of 8% to 13% between 2013 and 2017. Africa does offer a potential for market growth, particularly in the energy and power, transport, mining, real estate, and water sectors – which are currently concentrated largely in southern, east and west Africa.

- Section 3 provides an overview of the obstacles and constraints to market entry, and notes that unstable government, red tape, payment risk, and threats of terrorism and policy instability are ranked as the overall top rated risk factors respectively for undertaking work in Africa.

- Section 4 highlights business strategies used by contractors for international construction markets. This section notes that the enterprise factors of a company (namely resources, production, and experience factors and competitive advantage) are critical to the entry mode to be used in international construction, and to its ability to compete in these markets. The section also notes that the smaller contractors are less likely to have the enterprise factors necessary to be able to participate in cross-border activities.

- Section 5 examines local and international services for export promotion, including the dti’s services and the Built Environment Professions Export Council (BEPEC). This section highlights that BEPEC has an established presence and infrastructure in promoting the export of construction services (albeit professional services) into Africa. BEPEC also has well established links to the dti, and is recognised by the dti as an Export Council.

- Section 6 presents the conclusions and recommendations for the feasibility, together with recommendations for the cidb to support the export of contracting services.

1.4 Acknowledgements

The cidb gratefully acknowledges Prof. Keith Cattell, Dr. Abimbola Windapo, Luqman Oyewobi and George Tucker of the Department of Construction Economics and Management of the University of Cape Town for the research report undertaken for this feasibility study.

The cidb also acknowledges the cidb registered contractors that completed the email surveys. A special word of thanks is also extended to the contractors and industry associations that provide the time for and the valuable insights in the face-to-face interviews:

- Con Korsten, BEPEC;
- Gregory Mofekeng, Fikile Construction;
- Jon Lotz, Group 5;
- Francis Chemaly, Haw & Inglis;
- Mike Winfield, Martin & East;
- Tim Potter, Motheo Construction Group;
- Gerard Gilbert, Power Construction;
- Geoff Thompson and Charles Wright, Stefanutti Stocks; Nigel Harvey, WBHO; and
- Attendees of the Workshop on Export of South African Contracting Services held on 28 May 2015, including representatives from ACSA, DBSA and Transnet; BBCBE, SAFCEC and MBSA; NEPAD Business Foundation and other organisations.
2. Overview of Global and African Construction Markets

2.1 Global Construction Market

Oxford Economics’ estimates that global infrastructure spend will grow from $4 trillion per year in 2012 to more than $9 trillion per year by 2025. Overall, close to $78 trillion is expected to be spent globally between 2014 and 2025. Moreover, the Asia-Pacific market, driven by China’s growth, will represent nearly 60% of global infrastructure spending by 2025. In contrast, Western Europe’s share will shrink to less than 10% from twice as much just a few years ago.

Global infrastructure spending offers significant opportunities for domestic contractors, as well as for contractors that operate in the international market. Contractors in the Engineering News Record (ENR) Top 250 International Contractors earned $544 billion in contracting revenue in 2013 from projects outside their home countries, up 6.4% from $511 billion in 2012. The Top 250, as a group, also earned $871 billion in revenue from domestic projects in 2013, up 7.1% from $814 billion in 2012².

<table>
<thead>
<tr>
<th>Rank</th>
<th>Firm</th>
<th>2012 Revenue $ m.</th>
<th>Int’l</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GRUPO ACS, Madrid, Spain</td>
<td>42 772</td>
<td>50 655</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>HOCHTIEF AG, Essen, Germany</td>
<td>34 563</td>
<td>36 453</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>BECHTEL, San Francisco, Calif., U.S.A.</td>
<td>23 255</td>
<td>29 436</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>VINCI, Rueil-Malmaison, France</td>
<td>18 419</td>
<td>50 339</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>FLUOR CORP., Irving, Texas, U.S.A.</td>
<td>17 210</td>
<td>22 353</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>STRABAG SE, Vienna, Austria</td>
<td>16 062</td>
<td>18 557</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>BOUYGUES, Paris, France</td>
<td>14 196</td>
<td>33 885</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>SAIPEM, San Donato Milanese, Italy</td>
<td>13 771</td>
<td>14 039</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>SKANSKA AB, Solna, Sweden</td>
<td>13 292</td>
<td>17 217</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>CHINA COMMUNICATIONS CONSTRUCTION GROUP LTD., Beijing, China</td>
<td>11 187</td>
<td>47 327</td>
<td></td>
</tr>
</tbody>
</table>

ENR Top 250 International Contractors (2013)³

2.2 African Construction Market

In terms of the international construction market, construction in Africa amounts to around only 1% of the total worldwide market. However, Africa is the world’s second largest continent with a population of 1.07 billion⁴. The population is predicted to rise to 2 billion by 2050, with Africa having 25% of the global workforce. Africa has a $2 trillion economy with 54 countries, a third of which have annual GDP growth of 6% or more. Six of the top ten fastest growing economies in the world are in Africa.

Furthermore, Africa is rich in natural resources, with petroleum and natural gas accounting for the main exports, and rich in minerals such as bauxite, cobalt, industrial diamond, phosphate rock, platinum, vermiculite, zirconium and gold. Africa also has 60% of the world’s uncultivated arable land. Access to, and commercialisation of, these natural resources is a key driver of infrastructure development in Africa.

However, Africa has a substantial infrastructure deficit and the 2005 Commission for Africa report “Our Common Interest” estimated that infrastructure financing needs amounted to $93 billion per year. In Sub-Saharan Africa alone, infrastructure financing needs amounted to $39 billion per year, divided almost equally between capital expenditure ($22 billion) and spending on operation and maintenance ($17 billion).

According to Deloitte, the top sectors in African infrastructure development (rated by investment value) are energy and power, transport, mining, real estate and water, followed by oil and gas.

In the Deloitte study, of 322 projects to the value of over $50m being undertaken in Africa as at June 2013, 36% of all funding on the continent is provided by Development Finance Institutions (DFIs), of which International DFIs account for 16% and Africa DFIs, 13%. 7% of the total projects are co-funded by International and Africa DFIs. Domestic Governments fund just 8% of projects, investing $17.4 billion.

European/US contractors are building 37% of the projects identified in the Deloitte study, and Chinese construction corporations are building 12% of the projects identified.

---

The balance of contracting parties is private domestic companies and contractors from countries such as Japan, South Korea, Brazil, Australia and South Africa.

A different view however is obtained according to the 2014 ENR Top 250 International Contractor Survey (i.e. other than domestic contractors), in which the African construction market was dominated by Chinese, Italian, French and Brazilian contractors in order of importance – with revenue of $23 billion of the total spend of around $27 billion.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Contractor</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SAIPEM</td>
<td>Italy</td>
</tr>
<tr>
<td>2</td>
<td>China Communications Construction Group</td>
<td>China</td>
</tr>
<tr>
<td>3</td>
<td>Sinohydro Group Ltd</td>
<td>China</td>
</tr>
<tr>
<td>4</td>
<td>Vinci</td>
<td>France</td>
</tr>
<tr>
<td>5</td>
<td>China Railway Group Ltd.</td>
<td>China</td>
</tr>
<tr>
<td>6</td>
<td>CITIC Construction Co. Ltd</td>
<td>China</td>
</tr>
<tr>
<td>7</td>
<td>China State Construction Engineering Corp.</td>
<td>China</td>
</tr>
<tr>
<td>8</td>
<td>Bouyges</td>
<td>France</td>
</tr>
<tr>
<td>9</td>
<td>Construction Norberto Odebrecht</td>
<td>Brazil</td>
</tr>
<tr>
<td>10</td>
<td>China National machinery Corporation</td>
<td>China</td>
</tr>
</tbody>
</table>

While the construction market in Africa is small in terms of the global construction spend, growth in construction spend in Sub-Saharan Africa is estimated to be around 6% pa, and around 5, 5% in Middle and East Africa. Several countries in sub-Saharan Africa are in fact forecasted to achieve a average annual real growth rate of 8% to 13% between 2013 and 2017.

The key findings of the Deloitte on Africa Report include:

- **Southern Africa** is highly characterised by a wave of private sector driven retail malls and mixed-use development projects. Mozambique holds the potential to fast track economic growth in the SADC due to wealth in its recently proven oil and gas, coal and iron-ore reserves. There are also notable construction activities in Mozambique on infrastructure development in ports, rail and road to facilitate the export movement of resources from mines to ports. In East Africa, infrastructure projects in the oil and gas, energy, power, transport sectors will play a vital role while real estate and water projects cannot be under estimated in terms of enabling sustainable growth.

- In **West Africa**, Nigeria and Ghana are the primary infrastructure development hot spots; with Ghana presenting some interesting developments that have the potential to heighten West Africa’s global competitiveness. Sierra Leone is also experiencing significant infrastructure construction development projects in ports, rail and road, to facilitate the movement of coal and iron ore from the mines to the port for export. Of the top ten projects in West Africa, five are in Nigeria, three in Ghana and one each in Guinea and Liberia. From a sectorial perspective, 24% are in Transportation, 20% in Mining and 12% in Oil and Gas.

- **Central Africa** has historically experienced a degree of political instability and turmoil, with Francophone countries such as the DRC, Central African Republic, Gabon, Chad, Equatorial Guinea and Congo Brazza presenting complex environments politically, socially or commercially.


• A large part of North Africa is currently facing political and social instability. There is civil unrest and turmoil in countries such as Libya and Egypt, which affects the outlook for infrastructure development in these countries, although the demand for development still exists. A significant 59% of North African projects fall within the Energy and Power sector. In North Africa, Morocco is said to be a primary hub of infrastructure development, particularly within the Energy and Power sector while Algeria has two gas processing facilities being constructed, which are being prioritised over power works.

The recently announced BRICS bank is also likely to have a positive impact on infrastructure development in Africa, and opening up infrastructure contracts to South African companies.

The BRICS Forum is an independent international organisation formed in 2011, encouraging commercial, political and cultural cooperation between Brazil, Russia, India, China, and South Africa. A Joint Statement of the BRICS Business Forum of 26 March 2013 noted that BRICS and Africa will forge a closer partnership for development integration and industrialisation, and that BRICS countries will actively support infrastructure development and industrialisation on the African continent in order to contribute to its development and to expand trade links between Africa and BRICS. More recently, in July 2014, the presidents and foreign ministers of the BRICS countries signed a formal agreement to create the BRICS-led bank.

The BRICS New Development Bank (NDB) will have an initial with $50 billion in capital to start with, and a $100 billion Contingent Reserve Arrangement (CRA) to tide over members in financial difficulties.

2.3 South African Companies in Global Construction

A number of South African construction companies have made inroads into the international construction market, and a study undertaken by Frost and Sullivan\(^ {12}\) estimates that in 2011, the large six South African contractors generated between 30% and 57% of their turnover outside of South Africa.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Murray &amp; Roberts</td>
<td>30,5</td>
<td>70%</td>
</tr>
<tr>
<td>Aveng</td>
<td>34,2</td>
<td>51%</td>
</tr>
<tr>
<td>WBHO</td>
<td>14,8</td>
<td>43%</td>
</tr>
<tr>
<td>Group 5</td>
<td>8,8</td>
<td>75%</td>
</tr>
<tr>
<td>Stefanutti Stocks</td>
<td>7,0</td>
<td>75%</td>
</tr>
<tr>
<td>Basil Read</td>
<td>6,2</td>
<td>60%</td>
</tr>
</tbody>
</table>

Eskom (2012) (prepared by Frost and Sullivan)

The turnover generated by the six large listed South African construction companies outside of the South African borders has increased substantially since 2011, and for the year ending June 2013, Aveng generated 63% of its turnover outside of South Africa (amounting to around R33 billion) – but only around 10% from the rest of Africa.


Around 30% to 60% of the turnover of the six large listed South African construction companies in 2011 (amounting to around R40 billion) was generated outside of their South African operations.

Around 10% of their turnover was generated in Africa, outside of South Africa.
By 2013, the turnover of the six large listed South African construction companies outside of South Africa is estimated to be R126 billion\textsuperscript{13}. The larger size of their revenues comes from Australia, followed by Africa. Within Africa, their operations are mostly within Southern Africa compared to other regions. The prime destinations are Namibia, Mozambique and Zambia; Democratic Republic of Congo in Central Africa; Sierra Leone, Ghana and Nigeria in West Africa. The operation of these companies in the East and North Africa is low.

Notwithstanding the relatively low percentage of turnover being generated in Africa, many of the large contracting companies see Africa as a growth market – and an opportunity to off-set the downturn in the construction market in South Africa. The South African construction firms have certain competitive advantages in Africa\textsuperscript{14}, which include relevant and unique expertise in mining processes (wherein, a large proportion of construction industry has its root), technology and equipment. Other factors that give South African construction companies an edge in sub-Saharan Africa is proximity which makes it easier for them to mobilise the required skills, equipment and materials for construction projects across the regional at greater speed and lesser cost than their foreign competitors. The weakness of the Rand also makes South African companies to be more competitively priced than their foreign rivals.

### 2.5 Survey Results

The results of the 58 South African contractors surveyed are discussed below.

a) **Geographical Presence:** The South African construction companies surveyed operate in around 31 countries in Africa – mostly in the South, followed by West, East and Central African states. This largely aligns to the distribution of construction spend in Africa.

The top six countries that South African construction companies surveyed operate in are Namibia, Botswana, Swaziland, Zambia, Mozambique and Angola – namely countries within the SADC region.

---

\textsuperscript{13} Information provided by UCT  
b) **Contracting Services:** The top contracting services being exported by South African contractors surveyed are transportation services (roads, bridges, rail etc.), general building (shopping malls, housing, hotels/hospitality etc.) and services (water, sewer/waste) respectively.

c) **Clients:** The dominant client of the companies surveyed was public sector (including funding agencies), followed by locally-based private sector and then South Africa based organisations operating in Africa. The private sector projects focused largely on general building, mining, petroleum and industrial projects, while the public sector projects focused on transportation and services.

e) **Emerging vs. established sector:** It was the view of black business that the private sector market in South Africa is “closed” to black business, and as a result black owned construction companies cannot piggyback into Africa with the help of South African based private sector clients. Another view expressed is that a performance track record and quality is important in accessing private sector opportunities in Africa, and many black-owned businesses do have not the required track record.

### 2.6 Summary and Conclusions

While the construction market in Africa is small in terms of the global construction spend, several countries in sub-Saharan Africa are in fact forecasted to achieve a construction average annual real growth rate of 8% to 13% between 2013 and 2017. Africa does offer a potential for market growth, particularly in the energy and power, transport, mining, real estate, and water sectors – which are currently concentrated largely in southern, east and west Africa. In response, the non-domestic construction market in Africa is dominated by Chinese, Italian and French contractors.

36% of all funding in Africa is provided by Development Finance Institutions, which often limits the choice of contractors that can access these projects. The launch of the BRICS New Development Bank could however increase the accessibility of projects to South African contractors.

Around 10% of the turnover of many of the large listed South African contractors is currently derived from African operations, but all of these companies are targeting to increase the cross-border construction activities – with targets of 50% and more of African construction activities being generated outside of South Africa.

The major countries currently being targeted by South African contractors include Namibia, Botswana, Swaziland, Zambia, Mozambique and Angola.

The challenge however is to provide the emerging sector and smaller contractors with access to these opportunities in Africa.

---

**Zimbabwe woos SA infrastructure investors**

Zimbabwe is to open up its infrastructure sector to public-private partnerships (PPPs). The announcement came shortly after a visit to the country by executives from Transnet, the Development Bank of Southern Africa (DBSA) and the Public Investment Corporation (PIC).

Group Five is currently involved in the country after being contracted to rehabilitate the major highway linking Botswana and Mozambique and running through Harare at a cost of $207m. The DBSA is funding this road infrastructure development project.

– *Fin 24,* 10 October 2014
3. Obstacles and Constraints to Market Entry

3.1 Obstacles to International Construction

Companies exporting services into international construction markets face many obstacles and challenges not encountered in their domestic markets, and include general economic barriers, cultural differences (i.e. social system), language, government policy (i.e., taxes, licensing requirements), and stability of the currency exchange rate, expected local and global competition, political environment, economic environment, corruption, and cost advantages held by local companies.

Many obstacles are regional or country specific, and include:

- Extensive member country-specific knowledge of complex local regulations and standards requirements in the European Union (EU);
- Investing in Malaysia entails significant red-tape and fulfilling local equity requirements; licensing is a requirement in the former Soviet Union, India and China;
- While in the Middle East (e.g. Libya), foreign firms are required to use local agents known as “sponsors”, which are commonly seen as an institutionalised form of bribery;
- In the US, companies must be registered and licensed in each individual state and face severe liability implications; and
- Moreover, South African companies are only eligible to participate in EU funded projects in ACP (African, Caribbean and Pacific) countries, not in the EU.

3.2 Obstacles to Construction in Africa

Doing business in Sub-Saharan Africa

This promising potential market growth is accompanied by many challenges and much uncertainty, making capitalising on such opportunities far from straightforward. Effective legal and political systems are required for business to thrive, and some African countries (such as Madagascar and Mali) regressed on this front last year. Direct contracting is common in many regions, and global construction players — most notably from China — are forming strategic alliances with federal governments for flagship infrastructure projects.

Africa as a whole faces dire challenges in skills availability, particularly engineers and procurement specialists. Bottlenecks in the supply system, especially for cement and other key inputs, hamper construction activity, particularly in landlocked countries such as Congo. Factors such as migration, urbanisation and population growth are creating a situation where infrastructure is increasingly being overloaded. Finally, sustainability concerns are leading to an increased use of embedded technology in buildings and infrastructure, requiring better telecommunications networks and skilled resources. Hence doing business in Sub-Saharan Africa is far from easy or certain.

Source: PWC (2013)

Africa countries are characterised by several infrastructural development and maintenance challenges. These originate from deficiencies in project planning due to various geographical challenges, inadequate financing, documentation and implementation, poor management of existing infrastructure assets, institutional inefficiencies, regulatory bottlenecks, level of demand, limited numbers of bankable infrastructure projects in African markets because of technical/capacity and financial limitations at preparation, procurement and monitoring levels of projects.

In addition, construction projects across African borders suffer from a lack of a continental/regional legislative framework on procurement system, which introduces legal barriers for construction projects across different political borders in the form of restrictions to type of ownership and as a result foreign investors are forced to find local partners in order to operate in the country of destination. Another issue is the taxes and costs payable by foreign investors on capital gain which has been seen as deterring long-term investment, and cost which take the form of information costs, transaction costs, and differential taxes. Construction costs (and professional fees) on the continent are high due to the non-availability of specialist building materials/skills, and the high cost of land.

The African Development Bank highlights that Ghana, Kenya, Mauritius, Namibia, Rwanda and South Africa as African economies that are easy to do business in based on ease of getting licenses, credit and availability of electricity. Mauritius leads all the other African economies in ease of doing business and getting electricity.

Problems identified by Teljeur and Stern (2002) as constraining construction service exports by South African construction companies include:

- Funding of most projects are sourced from international funding agencies (e.g. World Bank, African Development Bank or International Finance Corporation) or export credit agencies who impose different tender requirements, limiting the number of projects for which South African companies are eligible;
- Administrative problems in forms of difficulty experienced in the movement of machinery and materials across borders which takes a longer time and is costly, and problems involved in obtaining work permits or visa (presence of natural persons);
- Legislative problems such as lack of transparent regulations in the target markets, sudden changes in import tariffs or required documentation; and Government procurement requirements, which are excluded from General Agreement Trade in Services (GATS);
- Political problems such as corruption or other “informal barriers”;
- Government procurement requirements, for example in Botswana and Kenya where companies are sometimes required to have domestic capacity (i.e. certain number of plants before tendering for certain government projects); difficulties in obtaining work and operating permits for South African construction professionals in Namibia, Zimbabwe, Botswana, Mozambique (where an operating permit can take up to 2 years to obtain), Uganda, Nigeria and Egypt;
- Limited expertise of South African companies for market demands; lack of sufficient international track record, and extreme skills shortage in the domestic South African construction market; and
- Lack of support from the South African Government, in terms of: (1) finance, which inhibits the ability of the construction companies to compete outside South Africa, and (2) a clear development policy for the industry and ministerial or even presidential backing for South African bids on international projects.

Ghana, Kenya, Mauritius, Namibia, Rwanda and South Africa as African Economies that are easy to do business in based on ease of getting licenses, credit and electricity.
3.3 Survey Results

An objective of this study was to determine the obstacles and barriers to export of services within the cohort of South African construction companies. The results obtained from the survey reveals that the top rated obstacles to the export of construction services include:

- **Political factors**: unstable government, excessive government intervention, political uncertainty and extreme political orientation (dictatorship);
- **Administrative factors**: red tape (bottlenecks), corruption and administrative delays;
- **Economic factors**: payment risk, unaffordability (client lack of funds), volatility in exchange rates and currency, unfavourable exchange rates and currency, high transaction cost (e.g. cost of bidding) and high inflation rates;
- **Social factors**: threat of terrorism, difficulty of doing business, high crime rate, theft and need to export expatriates skills and expertise; and
- **Legal factors**: legal instability, restrictions on foreign trade, and restrictions on the repatriation of royalties.

The overall assessment of these obstacles and barriers ranked unstable government, red tape, payment risk, and threats of terrorism and policy instability as the overall top rated risk factors respectively.

The findings further show that:

- 77% of the political factors could be accounted for by political uncertainty or insufficient confidence in the political system, and excessive local content regulations;
- 73% of the administrative factors could be accounted for by corruption;
- 66% of the economic factors could be accounted for by unfavourable exchange rates and currency;
- 78% of the social factors are substantiated by the difficulty of doing business in the country which encapsulates the infrastructure problems and threats of terrorism/crime rate; and
- 76% of the legal factors identified could be explained by inefficient legal systems or regulatory requirements.

The obstacles and barriers identified by the South African companies surveyed are discussed in more detail below:

a) **Corruption**: A significant number of respondents view that bribery and corruption is a major obstacle to the export of contracting services into Africa because of the difficulty experienced in, for example, exporting machinery and materials from South Africa and the time required to clear them at the border – much of which can be blamed on bribery and corruption. A respondent commented that “the officials use delay tactics, hoping that you are going to say, okay, what can I do to make things happen a little bit faster?”

b) **Exchange rates and currency**: The respondents viewed that unfavourable exchange rates exist in most African countries and also that the volatility in the exchange rates can be problematic to their operations in a country. Amongst others, profits made from construction operations might be whittled down due to poor currency values.

c) **Threats of terrorism / crime rates / health issues**: The respondents noted that African countries such as Nigeria and Kenya have high possibilities of terrorism due to activities of Boko Haram and Al Shabab respectively. A respondent viewed that “a company would not want to risk the lives of its employees.” Respondents also view that there are health issues to be considered in some African countries such as the bubonic plague and ebola virus. According to a respondent, “all of a sudden the borders are closed, flights are cancelled, and governments make decisions – that’s it, close the embassy and pack up.”

d) **Inefficient legal system / regulatory requirements**: Respondents noted that the different laws and business regimes amongst the African countries was often a obstacle to entry. The difference between the laws of South Africa and Namibia were used as an example, where even though these countries are close, the laws and business regime are said to be very different.
Furthermore ambiguous laws have been cited as obstacles to construction operations in Mozambique and Angola, which have led to some contractors losing all their profits. A respondent submitted that their company lost a lot of money in Mozambique because they could not get all their money out of the country. According to the respondent, “when going into the country, we did not anticipate that we would not be able to repatriate our profits. However, when the time came for payment, we were stalled by one rule after the other.”

Several contractors found that tax laws pose a risk to the trade in contracting services. Taxes payable that are not explicit from the beginning and double taxation in which there is an agreement between countries where companies providing services should not be taxed twice – once in the export country and another in South Africa.

e) **Political Uncertainty:** Respondents noted that certain actions by African governments appear to be arbitrary. According to a respondent’s comment relating to Angola, “Government officials can wake up one morning and decide that they do not want the contractor in their country anymore resulting in contractors pulling out and leaving valuable equipment behind.”

f) **Difficulty of doing business in Africa:** It was noted that in a significant number of African countries in which project opportunities exist, the relevant stakeholders do not necessarily have the required skills and systems for procurement and delivery of the project. Contractors also highlighted the fact that administration internally in African countries is often not sophisticated and skilled enough to deal with solutions (design and technology) for the projects. Another issue highlighted is the long period of time required for procuring work permits and for a contract to be awarded. Other factors highlighted by the respondents as contributing to the difficulty of doing business in cross-border African construction markets are as follows:

- “Extreme” difficulties encountered when going through land border posts;
- The need to import expatriate skills, and the time required to process work permits is long and arduous;
- Lack of social mobility within local labour: according to a respondent, “if you are going to do a project in an area that is dominated by a particular ethnic group, you can’t bring in other people because they are under the impression that the foreigners are going to take their jobs. And you see it also in South Africa…”;
- Language barriers and the need for an interpreter who, at times, may provide “the wrong information”;
- Lack of formal construction environment and regulations; and
- Cost of doing business, in which the cost of tendering and the cost of plant ownership were cited as examples. According to a respondent, “don’t even think of taking your equipment to an African country and expect to bring it back. It is just too expensive for you to bring your equipment back.”

Logistics and the difficulties to the free movement of equipment on the African continent were cited as a particular example to the high cost of doing business in Africa:

- The cost of plant ownership was identified as being high because the contractor has to own the equipment to take it across the border, as the bank would not release the equipment if it had not been paid for fully. To move equipment across the border, it has to be purchased outright, and according to a respondent: “what a company would have paid off over seven years, would need to be paid for upfront, which is very difficult.”

- Some respondents identified requirements for 10% of the capital expenditure of equipment that is often required by the country of destination as a guarantee that the contractor would remove the equipment at the end of the project. A respondent stated that “if you do not take your plant out of the country, your guarantee is withheld. If you take your equipment there, you still have to issue a guarantee as if you are going to take the equipment out of the country – which is expensive. So you leave your equipment there, you actually write off the guarantee and the equipment, making it very expensive to do business.” A respondent stated, “if you drive through Zimbabwe, you see yards of equipment just standing there, some are brand new and some just rusting away – which is quite sad.”
g) Excessive Local Content Regulation: African countries are viewed as being as regulated as South Africa when it comes to the number of people who can be brought in to work from outside. In Mozambique, this is said to range between 10 to 15% and 20 to 30% in Ghana. The respondents also noted that within SADC countries, local content requirements exist on all construction contracts. Furthermore, it was also noted by respondents that some African countries require foreign contractors to develop local contractors, which is included as a contract requirement.

3.4 Summary and Conclusions

While contracting opportunities for South African contractors certainly exist in Africa, substantial obstacles and constraints do exist to market entry. Key amongst these obstacles and constraints include political, administrative, economic, social and legal factors. Of these, the survey undertaken by the cidb ranked unstable government, red tape, payment risk, threats of terrorism, and policy instability as the overall top rated risk factors respectively for undertaking construction work in Africa.

Doing business in Africa “is far from easy or certain”, and the success of a contractor in penetrating the opportunities that exist in Africa depends on market focus and position, risk management, and the capabilities of the enterprise. The business strategies for sustainable market entry and development in Africa are discussed in the following section.

4.1 Entry Strategies

Three types of entry strategy exist for companies in international markets, namely:\(^{18}\):

- High degree of control, i.e. wholly owned, and acquisition;
- Medium degree of cost and control, i.e. joint venture; and
- Low cost of control strategy, i.e. franchise arrangements.

These entry strategies can be broken down into more detail, and a further characterisation of entry modes has been made by Cheng\(^ {19}\):

<table>
<thead>
<tr>
<th>Entry Mode</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Alliance</td>
<td>A long-term inter-corporate association without an affiliated organisation based on trust and a mutual respect for each participant’s business needs, used to further the common interests of the members (including the entrant).</td>
</tr>
<tr>
<td>Local Agent</td>
<td>A contractual arrangement between the entrant (principle) and a local agent where the agent provides principle information on local market conditions, contacts, and assistance to the entrant.</td>
</tr>
<tr>
<td>Licensing</td>
<td>A contractual arrangement between parties in different countries on the licensee’s use of limited rights or resources like patents, trademarks, trade names, technology, and managerial skills from the entrant (licensor).</td>
</tr>
<tr>
<td>Joint Venture Company</td>
<td>A permanent joint venture in which the entrant and other legally separate parties form a jointly owned entity in which they invest and engage in various decision-making activities.</td>
</tr>
<tr>
<td>Sole Venture Company</td>
<td>A permanent venture in the host country wholly owned by the entrant where profits and responsibilities are assigned exclusively to the entrant.</td>
</tr>
<tr>
<td>Branch Office/Company</td>
<td>A form of presence without a legal person status of the entrant in the host country that can carry out either profit-making or non-profit-making business activities.</td>
</tr>
<tr>
<td>Representative Office</td>
<td>An unincorporated formal presence in the host country to carry out non-commercial activities like business communications, product promotion, market research, contract administration, and negotiations on behalf of the entrant's head office.</td>
</tr>
<tr>
<td>Joint Venture Project</td>
<td>A project specific joint venture in which profits and other responsibilities are assigned to the entrant and other parties according to a contract.</td>
</tr>
<tr>
<td>Sole Venture Project</td>
<td>A wholly owned project specific venture where both profits and responsibilities are assigned exclusively to the entrant.</td>
</tr>
<tr>
<td>BOT/Equity Project</td>
<td>A project delivery method where the entrant (sponsor) finances, builds, and operates an economic infrastructure in the host country, and then transfers the ownership back to the government at the end of the project term free of charge or at an agreed price.</td>
</tr>
</tbody>
</table>

Source: Cheung and Messner, 2011

---


A further categorisation can be done in terms of three primary aspects that influence the entry mode strategies adopted by companies into international construction, namely:

- Market factors, including market size and growth, economic liberalisation, and the transition of economies into more market-based systems – which has been highlighted in Section 2;
- Situational factors such as country risk, socio-cultural distance, government regulations and policies – which has been discussed in Section 3; and
- Enterprise factors, including dimensions of mode choice, i.e. levels of control, dissemination risk, resource commitment, and flexibility that each mode possesses (see Section 4.2 below).

### 4.2 Enterprise Factors

Enterprise factors of a company are critical to the entry mode to be used in international construction, and to its ability to compete in these markets. Enterprise factors include:

- **Resources**, namely the quantity and quality of the construction enterprise’s assets, such as management know-how, capital, technology, equipment and personnel;
- **Production factors**, or the uniqueness of the enterprise’s product, the product services requested, density of production technology, product adaptation and its market position;
- **Experience**, or the company’s operational experience in international or cross-border markets that directly affects the selection of new international markets and methods of access; and
- **Competitive advantage**, namely the combination of attributes that allows an enterprise to outperform its competitors.

All entry modes involve a significant resource commitment, which companies must have access to be able to successfully enter a new market and to be able to compete in that market. Companies also tend to select entry modes which have been successful in the past, and a careful analysis of past experience is therefore required.

---

**The Building Blocks of High Performance**

Accenture assessed a peer group of 37 leading international construction and engineering groups, selected from diverse geographies. This “High Performance Business” research revealed three basic building blocks to sustain high performance in the construction industry:

- **Market focus and position**; the strategy adopted to secure competitive advantage.
- **Distinctive capabilities**; the systems and processes that enable value creation, including:
  - Improved risk management and capital allocation;
  - Efficiency in construction operations; and
  - Streamlined logistics and supply chain optimisation.
- **Performance anatomy**; the culture and mind-set that sustain success – maintaining a balance between centralised efficiency and innovative entrepreneurship.

---

4.3 Survey Results; Entry Strategies

The market entry strategies used, or being considered, by South African contractors in assessing cross-border work opportunities are dependent on whether the entry is going to be on ad-hoc basis to undertake one project or a sustainable entry into the country. The survey revealed a wide range of market entry strategies being used or being considered by South African contractors in cross-border African construction markets:

a) **Competitive tendering** and traditional contract procurement methods, which requires somewhat lower resources than other entry strategies. Competitive tendering can be done from an established base within a country, or from within South Africa. Competitive tendering requires access to information about tenders in the countries of interest, which is often facilitated through local agents, industry associations and trade promotion councils.

b) **Tendering invitations**: Several South African companies have accessed opportunities in Africa as South African clients have expanded into Africa (predominately in the mining, energy, telecommunications and retail sectors), and have invited South African construction companies to tender – based on their track record in South Africa. Respondents also viewed such contractual links with established clients as a means of mitigating the risks of non-payment, corruption and “red” tape on the African continent.

---

**Progression for growth, balancing efficiency and entrepreneurship**

<table>
<thead>
<tr>
<th>Growth</th>
<th>Multilocality/Multinational</th>
<th>Virtual Global</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td><em>Focus on local market</em></td>
<td><em>Organisation with common business structures and high level of centralisation at BU level</em></td>
<td><em>Organisation with global and corporate responsibility structures</em></td>
</tr>
<tr>
<td></td>
<td><em>Just few international jobs</em></td>
<td><em>Some IT and common processes homogenised at corporate level</em></td>
<td><em>Global responsibilities cross-BU</em></td>
</tr>
<tr>
<td></td>
<td><em>Small diversification</em></td>
<td><em>Shared Services by BU</em></td>
<td><em>Global resources management</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Technical CoEs by BU</em></td>
<td><em>Standardised and centralised processes</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Multiregion/country managed operations in each BU</em></td>
<td><em>Global Shared Services</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Global portfolio management at BU level</em></td>
<td><em>Global technical CoEs</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Global regulatory and risk policies</em></td>
<td><em>Global sharing of know-how</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Process and systems standardised at BU level with local adaptations</em></td>
<td><em>Global networking and alliances</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Outsourced processes at medium level</em></td>
<td><em>Intensive use of outsourcing</em></td>
</tr>
</tbody>
</table>

**Source:** Accenture (2012)
c) **Unsolicited proposals:** Several companies identified the opportunity to develop unsolicited proposals and total solutions as an entry mode, particularly where the total solution is not available locally in the country being targeted – such as wind farms.

d) **Private Public Partnership (PPP) Projects and concessions:** several respondents are exploring this method of procurement wherein they prepare the designs and provide (or facilitate) the finance and by so doing, negotiate with the client body/government. Some respondents pointed out that this is where the Chinese construction companies have an advantage because, “the Chinese companies come – obviously with the government’s backing, money and mandates.” Facilitating PPPs and concessions does however require significant resources, and can only be undertaken by the larger contractors.

e) **Use of facilitators** such as ambassadors, local developers, businessmen, brokers etc. were identified in the survey as being important in market entry strategies.

f) **Joint venture contracts** are being used by small sized construction companies in mitigating risks and transaction costs. Typical mechanisms identified include:
   - Smaller construction companies approaching large established companies to joint venture with them on projects that the smaller companies have identified through their own networks; or
   - Larger contractors taking their strategic partners into cross-border joint ventures.

Strategic relationships with established contractors can provide opportunities for cross-border market access.

Debate continuation

A respondent noted that “when we get into a foreign country, we partner with the locals because we don’t know the local dynamics, they know them better than we do, and in the process of implementing the project they can make sure they unlock other things that might be obstacles but we might not have any knowledge of how to address them.”

i) **Registration of a new company/subsidiary:** Some contractors expressed the view that it is often necessary to establish a newly registered company abroad because:
   - A local presence is a requirement of some African countries; and
   - A subsidiary of the parent company limits the risk exposure of the parent company, by ring-fencing the risk to that corporate entity.

j) **Specialist niche applications:** A respondent noted that specialist niches can be used either as entry strategies by sub-contracting to large construction companies or being recommended for work opportunities by large construction companies if the job on offer is small. According to a respondent, “emerging/small contractors have a role to play because where the big asphalt companies want to go cross-border and only implement a 30 to 40km road as a minimum type of job, these small contractors will probably go across border to Botswana and do a shopping centre parking-lot surfacing.”

Transnet Strategy for Expansion in Africa

The revitalisation of the railways industry in Africa is inevitable and we are positioning ourselves to take advantage of this and to make it the source of growth for our company in the medium term. In the short term, it is about winning the race for growth by revitalising our rail industry in South Africa and making sure that more goods are transferred from road to rail.

It is about growing our market share of the logistics pie and removing goods from the road and bringing them back to rail. It is also about increasing the traffic of container vessels from around the world to Africa through our ports in South Africa – including our transhipment hub in the Port of Ngqura – as well as increasing our manufacturing base in the country, allowing us to export a lot of manufactured goods.

**Brian Molefe, CEO Transnet SOC**

Source: PWC (2014)23

4.4 Survey Results; Enterprise Factors

As pointed out by respondents, the African construction market is a more risky environment to trade in than the domestic South African market. To compete, a company requires certain capacities and capabilities to mitigate the impact of these risks on their business operations. Key capacities and capabilities required that were highlighted in the study are discussed below:

a) **Healthy balance sheet:** Respondents expressed the view that a company needs a substantial and healthy balance sheet to be able to move into a new construction market, and that the health of a company’s balance sheet will determine whether it is in the right position to venture outside its domestic market. In the words of a respondent, “if a company cannot maintain a 90 to 120 days of cash flow on a project in Africa, then the company should not operate in that space.”

b) **Financial resources:** A company has to have adequate financial resources that can be risked in exploring new markets to cover feasibility studies, market analysis and market development. As an example, a respondent from an established large JSE listed Construction Company highlighted the problems involved in getting into Nigeria. “It took the company four years to get going in Nigeria, visiting, setting up all the procedures, finding a local partner and getting that process sorted out. Even with all that, the company is still struggling.”

c) **Credit guarantees:** The need to be able raise credit guarantees from the client for protection against project payment default was stressed by respondents. However, not all clients provide such guarantees, which can place additional risk on contractors.

d) **Risk mitigation:** Appropriate risk mitigation strategies are critical to successful market entry in Africa, and different companies are more or less risk averse based largely on their financial and work experience. Specifically, a company that is established in cross-border trade would perceive risk differently to a new entrant into cross-border activities. Respondents noted however that many new entrants into cross-border activities do not have the experience to be able to adequately assess and interpret the risks involved in cross-border activities.

e) **Knowledge and experience:** Respondents noted that knowledge and experience of market entry in Africa is central to successful cross-border activities. However, where contractors do not have the necessary in-house knowledge and experience for business development, cross-border contracting, etc., in order to reduce risks, contractors have to make use of specialists. The use of specialists however increases costs and reduces margins.

f) **Human resources department:** Respondents noted that to be successful in cross-border activities, it is likely that a company would have to have an established human resources department to deal with soft issues involved in sending people across the border, providing the knowledge about whether the company is employing the right people and offering the correct benefits. As a respondent noted, “because of the need for independent and resourceful people capable of running the projects by themselves without the need for supervision, and because of the time and expense of visiting those jobs, we have to send the A-team across the border.”

g) **Relationship building, networks and trust:** The ability of a company to build relationships with clients, consultants or other more established construction companies was considered to be an important requirement for market entry. Respondents noted that many clients do not want to deal with contractors that they do not know or have not dealt with before. Some contractors in fact use these relationships as a springboard into Africa by following the clients with which they have relationships (see 4.3 b). According to a respondent, “for the clients it makes business sense to deal with the South African companies that assisted them to open a mine or develop a shopping mall, because they know their expertise, they are comfortable with the teams so they can take the contractor wherever they go on the continent – so what you have is a network.”
4.5 Summary and Conclusions

This section has noted that enterprise factors of a company (namely resources, production, and experience factors and competitive advantage) are critical to the entry mode to be used in international construction, and to its ability to compete in these markets. The enterprise factors required for market entry and successful competition in Africa are such that, typically, only the larger Grade 9 contractors can compete in Africa. It is possible therefore that smaller contractors would have to joint venture or sub-contract to larger contractors to be able to participate in cross-border activities, or to focus on niche markets.

Furthermore, appropriate strategies to mitigate risks (see Section 3) are critical to successful market entry in Africa, and the relevant knowledge and experience for business development, cross-border contracting, etc. is essential in this regard. Again, many new entrants into cross-border activities do not have the experience to be able to adequately assess and interpret the risks involved in cross-border activities. Risk mitigation can however be supported through external export promotion services – which are discussed in the following section.

“If a contractor cannot compete successfully in South Africa, how can that contractor compete in Africa.”
5. Export Promotion Services

5.1 Towards an Export Promotion Service (the dti)

Export promotion activities by government promotion agencies can largely be grouped into three areas, namely:\(^24, 25\):

a) **Knowledge or information transfer**, including counselling, training and manuals and guidelines for exporters. These services are largely directed towards new or potential exporters, as well as current exporters who wish to expand their current export activities and enter into new markets.

b) **Subsidisation of export companies and their activities**, including direct financing options or indirect involvement from government by reducing tax rates or offering special licensing agreements.

c) **Reducing barriers to trade**, including local barriers to trade, such as licensing or permit requirements, as well as negotiations abroad for decreased barriers such as tariffs.

Examples of such export promotion activities by various agencies are highlighted below:

i) **Department of Trade and Industry (the dti)**

The Department of Trade and Industry (the dti) plays an important role in the promotion of economic development and meaningful participation in the global economic and trade environment. It achieves this by working to build an equitable multilateral trading system that facilitates development, strengthens trade and investment links with key economies. A significant feature of the dti’s international engagement also involves work to support African regional economic integration and development co-operation\(^26\).

Amongst others, the dti manages the following schemes which are relevant to the construction industry:

- **Export Marketing and Investment Assistance (EMIA)**\(^27\): The EMIA scheme covers the costs incurred in the process of carrying out market research. The EMIA scheme develops export markets for South African products and services, and recruits new foreign direct investment into the country. Amongst others, the EMIA scheme provides for:
  
  - Sector Specific Assistance – a reimbursable 80:20 cost-sharing grant scheme, whereby financial support is granted to Export Councils (see BEPEC below), Joint Action Groups and Industry Associations; and
  
  - Project Funding for Emerging Exporters – to compensate the costs in respect of the activities aimed for the development of South African emerging exporters.

- **Capital Projects Feasibility Programme (CPFP)**\(^28\): The CPFP is a cost-sharing grant that contributes to the cost of feasibility studies outside South Africa likely to lead to projects that will increase local exports and stimulate the market for South African capital goods and services.

---


\(^26\) the dti. Trade, Exports & Investment, Department of Trade and Industry. South Africa www.thedti.gov.za


The programme’s contribution is in the form of a grant of up to 55% of the feasibility study costs for projects in Africa, with a cap of R8m. The project criteria for consideration within the CPFP is that the minimum local content, depending on the nature of the project, must be 50% for goods and 70% for professional services (but which remains at the discretion of the Adjudication Committee). Furthermore, a minimum of 10% of the total professional services involved during the feasibility study should be subcontracted to South African black-owned professionals/entities.

The dti is however reviewing the criteria for participation in EMIA and CPFP, and intends to place increased emphasis on promotion of black enterprises.

ii) Built Environment Professions Export Council (BEPEC)

The Built Environment Professions Export Council (BEPEC) was created in 2001 under the umbrella of consulting Engineers South Africa (CESA), the South African Institute of Architects (SAIA) and the Association of South African Quantity Surveyors (ASAQS). The Architectural and the Quantity Surveying professions joined the organisation in 2008, and the Association of Construction Project Managers (ACPM) joined subsequently. The Export Council is one of 18 Export Councils recognised by the dti, and is the only services council (the remaining export councils being product orientated export councils). The membership income to BEPEC is funded on a matching basis by the dti.

The aim of BEPEC is “to be the voice of the built environment professions to government and clients across our borders on all matters related to exports”\(^2\). BEPEC aims to assist members in growing their exports by providing the capacity to drive strategic initiatives to access business opportunities at an industry and political level.

BEPEC plays a key role in advocacy, market access and access to funding streams. The access to funding streams includes facilitating access to:

- dti funding for staging trade missions to development finance institutions such as the African Development Bank and the World Bank;
- Various dti financial incentives (see Item above), including the Export Marketing and Investment Assistance (EMIA) Scheme and the Capital Projects Feasibility Programme (CPFP);
- South African Trust Funds at the World Bank and the International Finance Corporation;
- Various commercial financial institutions to facilitate participation in projects; and
- South African and international non-governmental organisations (NGOs) and donor agencies.

BEPEC hosts regular “Show me the Projects” and “Show me the Money” workshops at which members are exposed to strategic project opportunities in Africa and to funding programmes of Development Finance Institutions (DFIs). BEPEC also hosts field trips into Africa (which are co-funded through the EMIA Scheme).

More recently, BEPEC, other Export Councils and the dti, have initiated the establishment of a Business Facilitation Agency in Tete in Mozambique. The Business Facilitation Agency is equipped with:

- Telephones
- Hot-desks
- Secretary service (meeting organiser/collection of tenders/attending briefing sessions, etc.)
- Address (local address for clients)
- Board room
- Translation services
- Temporary storage space (storage of marketing material/filing etc.)
- A “living” project database
- Business Development Support (information on and access to potential clients); and
- Project management of market research initiatives

The Business Facilitation Agency is available to subscribers at around R1 200.00 per month.

The Board of BEPEC is presently considering extending the mandate and membership of BEPEC to include the contracting sector.

\(^2\) www.bepec.org
iii) NSW International Engagement Strategy

The New South Wales (NSW), Australia, International Engagement Strategy aims to position NSW to attract international investment, facilitate exports, create jobs and grow the NSW economy. The engagement strategy identifies priority international markets, based on:

- Current largest source of productive international investment;
- Current significant markets for export of NSW goods and services; and
- International markets with strong economic growth.

Key priority markets identified in the NSW engagement strategy include the regional markets of China, India, Malaysia and Indonesia.

The strategy further identifies priority industry sectors, based on:

- Demands and needs of the priority market;
- Sector strength in terms of existing exports and foreign direct investment;
- Potential for growth based on market opportunities; and
- NSW competitive advantages.

Amongst others, the strategy identifies construction and infrastructure as a priority industry sector for international trade and investment for NSW.

Key elements of the NSW strategy, relevant to construction and infrastructure, include:

a) **Expert advisory panel** that:

- Provides high-level advice as needed;
- Supports identification and engagement in emerging opportunities in priority markets; and
- Attends targeted business meetings and events at the request of the Premier and Deputy Premier.

b) **Government support** for growth in exports, including:

- Providing export business advisory and/or capability building services;
- Partnering with industry to promote trade missions into priority markets/sectors;
- Facilitating an environment which supports businesses to innovate by entering new markets or expanding existing opportunities with new products, processes or business models.

c) **Small business advice network**, to assist over 6 000 exporters a year with:

- Connections – creating visibility and transparency to help companies connect to each other and the resources they need quickly and easily;
- Capability building – providing access to services to improve the skills needed for a sustained high growth, export life-cycle, including workforce skills, management skills, and entrepreneurial skills;
- Collaborations – facilitating the development of new market-relevant products and services in partnership with others; and
- Competing effectively – assisting exporters to pursue new international markets and opportunities.

d) **Trade and investment presence in new priority markets**: The NSW Department of Trade and Investment currently has five overseas International Offices. These offices are small, highly-focused operations targeting investment leads and supporting exporters with high growth potential in two to three priority industry sectors. They are typically two to three person offices headed up by senior local managers with extensive regional market knowledge, strong networks and business contacts in priority industries.

---

The success of the overseas trade and investment offices are measured by tracking the return on investment. Return on investment is calculated by comparing the international investment and export dollars generated for every $1 spent on the running of the office. Each office has been delivering a minimum of 20:1 return on investment in the start-up year and 40:1 in subsequent years.

iv) International Enterprise Singapore

International Enterprise Singapore (or IE Singapore), is the government agency driving Singapore’s external economy, and provides the following support, which provides the following support:

a) Export strategy workshops, covering:
   - Export marketing plan development;
   - Overseas market research and comprehension;
   - International branding;
   - Evaluation of international channels;
   - Partner selection;
   - Agreement negotiation; and
   - Effective overseas market visit presentation.

b) Export clinics, designed to provide detailed information and training on various technical and administrative aspects of an export operation.

c) Advisory seminar series, providing practical insights on new market opportunities and key challenges from industry experts and companies who have successfully exported overseas. These country-specific seminars also provide a platform for discussions on market set-up, tax and legal issues.

d) Market research technique workshops, providing information on conducting appropriate market research prior to any international expansion plan.

e) Overseas business matching, facilitating the introduction of potential agents, distributors and customers to local companies.

5.2 Survey Results

The survey examined the support required to promote the export of contracting services. A significant number of the respondents, namely 100% of emerging contractors and 75% of established companies, support the view that as a statutory body mandated for construction industry development and performance, the cidb should provide support that would aid the cross-border export of contracting services. The respondents viewed that the cidb should assume the role of “South Africa Construction Incorporated”, for which there is a need and having done so, take on the following responsibilities that would enhance the cross-border export of South African contracting services:

a) Coherent strategy: The survey respondents expressed the need for development and custodianship of a coherent strategy for export promotion of contracting services that involves political and government intervention, which “opens doors” politically, and includes the provision of grants to “open the doors”. A respondent stated that “South Africa should not be beaten by the US using USAID or by China using the China Exim Bank.”

31 www.iesingapore.gov.sg
b) **Provision of market information and tax regimes** in target countries, including the provision of project tenders and project financing. This information could be in the form of information placed in the public domain as well as information that contractors could subscribe to, as well as facilitated training for companies on international construction business and countries.

c) **Business delegations and trade shows:** Participants expressed the need for sponsored and facilitated business delegations and trade shows to African markets. According to a respondent, “we can go on the platform of the cidb and when we get there, we would no longer be strangers.”

d) **Export promotion scheme** (see also Section 5.1.i): The cidb should work with the dti to fashion out an export promotion scheme, with a strong focus on supporting black businesses. According to a respondent, “because of cash flow challenges with the emerging companies, we are unable to explore the opportunities provided by the dti. The dti pays a percentage, and as a contractor you must pay a percentage upfront. Now depending on where you are on your cash flow cycle, as an emerging contractor you might not be in a position to pay your portion. Because exploration is purely Research & Development, an emerging contractor may not put in money because the amount is a risk, and if the contractor is not in a position to risk the contributing amount to explore a new market, there is a possibility that the contractor might lose that opportunity.”

The respondents further requested that the dti runs two export promotion schemes, namely one that will apply to the established construction companies and another that will apply to the smaller emerging contractors. It was stressed that the level of assistance provided by the dti which enables contractors to undertake feasibility studies at the initial stages of a project, unlocks so much opportunities that make it possible for a company to participate in the export trade of contracting services and gives the company security to take a chance.

e) **Strategic alliances:** The cidb could also provide a platform through which South African international design/engineering consultants and home based-contractors could develop a synergy that contractors can use as a means of entry into the international (African) construction market.

It was however noted by the respondents that the appropriate capacity for export promotion would have to be provided for within the cidb.

### 5.3 Summary and Conclusions

The previous sections of this report have examined the opportunities for the export of contracting services into Africa, the obstacles and constraints to entry, and the entry strategies and enterprise factors for successful cross-border activities. The report has identified that contracting opportunities for South African contractors certainly exist in Africa, but that doing business in Africa “is far from easy or certain.” A key mechanism to enhance the export of contracting services and to reduce the risks involved is that of “export promotion services.”

Respondents in the study identified that the cidb should, as a statutory body mandated for construction industry development and performance, provide support that would aid the cross-border export of contracting services. Such an export promotion industry should draw on the existing export promotion services of the dti, and on international experience.

The key objectives of such an export promotion service would be the need for the development and custodianship of a coherent strategy for export promotion of contracting services that involves political and government intervention. The export promotion service should focus on the provision of market information and tax regimes in target countries, including the provision of project tenders and project financing and on business delegations and trade shows. In addition, the respondents identified that the cidb should work with the dti to fashion out an export promotion scheme, with a strong focus on supporting black businesses.
6. Conclusion and Recommendations

6.1 Africa is a Market for Construction

It is estimated that the average economic growth rate for African countries will be 6% a year between 2010 and 2040, and that the GDP of African countries will multiply six-fold over this period. This continuing growth and prosperity will swell the demand for infrastructure, already one of the continent’s greatest impediments to sustainable development. Closing this infrastructure deficit is vital for economic prosperity and sustainable development – and creates substantial opportunities for international and domestic contractors.

South African contractors are well positioned to contribute to the development of infrastructure in Africa, and South African contractors have notable competitive advantages in providing basic infrastructure on the African continent. Expanding into international and cross-border construction markets is an essential growth strategy for many South African construction companies.

While many of the large South African contractors have demonstrated that they are capable of competing with the best in the world, the challenge is to broaden the base of contractors that can compete in Africa and internationally. This will raise the competitiveness of the industry as a whole, enhance value for money to clients and to society, and contribute to the economic growth of South Africa.

But many contractors are still addressing impediments of the past and have effectively been excluded from competing in the local market. Africa also needs to be a market for South African emerging contractors – and specific attention and support structures need to be put in place to support the participation of the emerging sector.

The cidb’s vision for the construction industry is:

*A transformed construction industry that delivers sustainable value in a manner that is responsive to the socio economic needs of South Africa*

This vision is supportive of the construction industry exploiting its strengths in the African and global market.

The cidb commits to supporting this vision for a transformed construction industry that is internationally competitive, and that contributes to the development of Africa. The cidb seeks to work with industry to achieve this vision.

---

6.2 Supporting the Vision

The following recommendations arise from this study:

i) An Export Council: An export council for contracting services could be established as an individual council, or by broadening the mandate of BEPEC which has an established presence and infrastructure in promoting the export of construction services (albeit professional services) into Africa. BEPEC also has well established links to the dti, and is recognised by the dti as an Export Council.

It is recommended that the cidb facilitates the establishment of an export council for contracting services, which is recognised by the dti – either as a standalone export council or incorporated into BEPEC by broadening its mandate and membership to include the contracting sector.

The Export Council would then extend its role in advocacy, and to support market access and access to funding streams to include contractors.

ii) Supporting the Export Council: Depending on the option adopted for the export council for contracting services, varying degrees of support would be required to support the export council. For example, notwithstanding that BEPEC has an established infrastructure for advocacy, that supports market access and access to funding streams, BEPEC does not have in-house capacity to provide market information or to provide advisory and/or capacity building services, etc. Similarly, should a standalone export council be established, additional support may be required.

It is recommended therefore that subject to resource availability, the cidb investigates:

• Establishing a cidb information centre, including providing access to information, and high level country reports;
• Providing export business advisory and/or capability building services to emerging contractors, where possible in partnership with established contractors; and
• cidb participation in Export Council business delegations and trade shows, to build and maintain its capacity in export promotion to the benefit of the construction industry.

Consideration should be given to capacity building services of emerging contractors that could include providing access to subsidised services to improve the skills needed for cross-border activities.

iii) Facilitating a Partnering Approach: A key role for the cidb would be to facilitate access of emerging contractors (typically in Grades 5 to 8) to cross-border activities. In many cases such cross-border activities would have to be done in collaboration with established companies – including State-Owned Companies (SoCs), developers and contractors.

In support of this, it is recommended that the cidb:

• Should provide advice and support the dti in its goal of enhancing black participation in EMIA and CPFP;
• Explore establishing recognition schemes or off-set schemes for established contractors working with black-owned contractors in cross-border activities (possibly in terms of the cidb Standard for Indirect Targeting for Enterprise Development or other such Standards for Contract Participation Goals);
• In partnership with industry associations, facilitate emerging contractors to create appropriate business relationships with established contractors.