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THE CHALLENGES FACING THE CONSTRUCTION SECTOR IN TRINIDAD AND TOBAGO

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BACKGROUND

The Construction sector in Trinidad and Tobago stands at the threshold of a new and challenging era. While we may be inclined to describe the situation as suddenly unfolding, one should really see it more as the logical conclusion of several clearly definable events. We have now completed almost a decade of recession and contraction of the national economy (1983-1994) that has had significant effect on the sector. During the oil boom years (1974-1983), the national economy literally exploded with the hitherto unimagined levels of injection of revenue due to rise in the international price of oil. The state financed significant growth in the construction sector as it undertook several projects which included massive infrastructure works, mass housing developments, the construction of several government buildings, a major coastal industrial estate, health facilities, schools and a road construction programme. This has all been well documented. In the early period, the Government introduced what was to be described as the Government to Government Arrangements in which foreign governments were approached for assistance in procuring engineering services from their own national firms. The subsequent weakness of this approach has been the subject of a cabinet-appointed enquiry (1982).

This period saw significant changes introduced into the construction sector. Firstly, there was the apparently preferential position given to the Design and Build form of contract procurement with respect to the traditional form in which the design and construction functions were carried out by separate agencies. Secondly, there was the utilization of foreign/local joint venture firms (partnerships, companies). The period saw the creation of joint venture firms of architects, engineers, quantity surveyors and contractors. The next mechanism that was to gain ascendancy was that of the specialized sub-contractor, a mechanism that tactically made use of some of the local contractors and suppliers of materials and equipment.

The Design, Finance and Construct contract was the next contract procurement system to be proposed (Suite, 1987) and first appeared as a proposal by the government of the day in 1985. It was a mechanism intended to sustain activity within the construction sector and to provide scarce funding for the completion of projects for which designs had either been only recently started or not yet undertaken but for which there continued to be an unquestionable demand, even though the state was unable to finance.

This system sought to bring together architects and design engineers, contractors/builders and the finance house (banks, insurance houses and non-bank financial institutions) into a tripartite joint venture to tender for complete projects. For five years, in spite of a long list of projects having been identified and proposals being made, the contract form did not take root. This local experience has been exhaustively treated elsewhere (Inkim, 1990; Suite, 1990; Suite, 1993).

In its place, a new variant on the theme was to emerge under the sobriquet of the Fincor Contracts. This was first subjected to academic scrutiny in a M.Sc. thesis (Henry 1990) which discussed the first project to have been completed through this mechanism of financing. A lending syndicate comprising the Republic Bank and several other financial institutions (26) had put up a sum of money, initially $285M, to be made available to the Government to finance a number of contracts. The lending syndicate was to retain a firm of consultants to carry out its own independent assessment before any monies were to be released. The Fincor Arrangement consisted of three separate contracts; one between the client and Fincor for the loan of the contract sum, another contract between the contractor and Fincor for the financing of the project and a third contract between the client and the contractor for the performance of the works.

It was during the period of the Government to Government Arrangements, and in particular during the later period of the rise of the Design and Building mega contracts, that there was to emerge an entirely new actor in the construction drama. This was the Project Manager as Main Consultant, as distinct from the Project Manager as Main or General Contractor, a concept with which the sector had been familiar.

The Design, Finance and Construct contract procurement system was to finally take root with the construction of the Police Headquarters in Port of Spain in 1991. This has been discussed by Murray in a Postgraduate Diploma thesis (1992), the first project to have been

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successfully completed through this financing route.

While the DFC mechanism and the Fincor Contracts allowed the government to fund some of its priority construction works, it was unable to fund many other development projects since, by that time, the Government had virtually reached the limit of its borrowing capacity. In fact, two new mechanisms had since been proposed. Firstly, there was the proposal fostered by the international lending agencies, that of divestment or privatization of state enterprises. This was proposed during the early period of the debate on the DFC procurement system. The second was that implemented by the Canadian government in the Terminal 3 project at the Toronto Airport. This was the Build, Own, Operate and Transfer system (BOOT) in which the Contractor/Developer procures financing, develops the design, executes the construction of the project while entering into a partial or total ownership of the project. He then operates the project for an agreed period after which the project is handed back to the client, either for a nominal sum or the developer's shares are sold back to the client. To date, the new airport project, PRIDE, has been awarded in accordance with the BOOT mechanism and the construction community awaits to see the unfolding experience. This represents the saga of the different contract procurement systems that have evolved in Trinidad and Tobago over the last two and a half decades. Today, the principal challenges facing the construction sector spring from the continuing scarcity of funds at the disposal of the state sector and its negative impact on the demand for engineering services. To a lesser extent is the low level of private sector allocation to the sector.

When construction activity slowed in the 1980's, engineering (design), architectural and construction firms carried out a series of internal manoeuvers aimed at trimming operations in order to survive. They began to look towards the other Caribbean islands for work. An outward exodus of construction equipment and skilled labour began to occur. Some skilled personnel at the professional and sub-professional levels sought to emigrate to the United States and Canada, even to the Middle East. This migration of worker out of the construction sector was to draw skilled personnel into self-employment, into any corner and in any other sector that would provide temporary respite.

There have been several seminars and workshops organized to summon the sector to debate the question, "Can the construction sector be kick started and through it catalyze the economy into new activity?" The principal thrust today points in the direction of the privatization of the utilities. With this has come the fear within the construction sector that this may spell further decimation of the local firms. They have expressed several genuine fears, the more important include:

(i) That the local firms, not being able to buy into the privatized utilities, will be powerless as contracts for engineering services and goods may be awarded to lower-bid foreign (International) tenders.

(ii) That the foreign firms, armed with all the latest advanced technology, greater experience and higher levels of productivity, will not only be able to out-produce but to under-price their bids.

(iii) That these firms will be able to source services and goods internationally and therefore more cheaply.

For similar reasons, they see themselves priced out of the international market as a direct consequence of NAFTA with their high costs, lower level productivity and lower quality. They fear that they will not be able to compete, within the opened up local market. This is, in essence, the central challenge facing not only the local manufacturing sector but the construction sector that continues to depend so heavily upon a high foreign content of all finished work.

If this is the central challenge which we cannot wish away, then we must set about to develop strategies to deal with this threat.

PROPOSED STRATEGY FOR THE CONSTRUCTION SECTOR

The Need for an Umbrella Organization

There already exists the Joint Consultative Council (JCC), formed almost a decade ago to represent all the organizations within the construction sector, i.e., architects, engineers, quantity surveyors and contractors. It was principally a creature of the contraction process within the construction sector, conjured up to protect the collective interest of the local sector against the overwhelming effect of a perceived invasion by the foreign firms and what was thought to be the insensibility of the government in coming to their aid. Today, there is even a greater need for a very dynamic and forward-looking JCC. The membership should be extended to include the financial institutions who fund construction. There is need for a monthly round-table that engages in analysis and monitoring of the sector as well as joint strategic forward planning for the sector.

NEW STRATEGY

A radically different corporate approach should now be adopted by the entire construction sector. In order to maximize the benefits and create a comparative edge, the new attitude should be characterized by flexibility. The components of this new strategy should focus on the following:

(i) Specialization within the sector. Firms should seek to specialize but set up a mechanism based on shared information and knowledge between firms who will now not be in competition.

(ii) New Alliances should be developed between designers and fabricators, suppliers and contractors and between developers and financiers. This will create the critical mass of expertise and capital needed to compete.

(iii) Joint Venturing is going to prove to be the organizations of the future. Local firms in the sector should more aggressively seek these linkages with foreign companies not only for potential work within the Caribbean but in other Latin American countries and even beyond. This will not only give them access to more up-to-date technology and capital but experience and entré into the non-English-speaking Caribbean.

(iv) New Technology that delivers higher levels of productivity is an absolute necessity if the local firms are to compete and survive. They must intensify the level of training of staff and their investment in new technology.

The components of this new strategy are therefore:

(i) Flexibility and specialization
(ii) New Alliances of Vision
(iii) Joint Venturing with Foreign Firms
(iv) Investment in Training and New Technology and Information.

This will not only aim at survival of the indigenous sector but may be the catalyst for successful extra-regional expansion.

The leaders in the local construction sector must swiftly move to organize themselves to develop an aggressive strategy to deal with the new situation. They must seek to take advantage of any opportunities which may present themselves and to maximize the advantage of superior knowledge of the local market.

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