



Hats



Off

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Building Namibia's Future Issue

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CONSTRUCTION NEWSLETTER



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UNDERBIDDING IN THE CONSTRUCTION SECTOR - DOES MORE HARM THAN GOOD

Bidding is an essential and integral part of the construction industry, but it can be a challenging skill to master. It appeals to humanity's inherent competitive streak, pitting us against others in a head-to-head challenge. The best bid secures both the contract and guaranteed employment for the immediate future. It can be tempting to underbid a project to ensure your company is the one that ultimately gets chosen for the job. While this can be a useful strategy to employ in some circumstances, underbidding comes with its own risks. Here are some of the dangers of underbidding (especially if it's a regular practice) and what sort of impact it can have in the long run.

What is underbidding?

Underbidding is the practice of submitting a bid that's lower than the competition's bid. In theory, there's nothing wrong with underbidding if the bid is accurate and you can actually complete the project for the bid price. But problems can creep in when contractors adopt a strategy of habitually underbidding in order to win contracts. This is especially true when they know they can't meet the bid price according to the contract specifications.continued to page 4



GREEN BUILDING SOFTWARE FOR LOCAL CONSTRUCTION SECTOR

Bank Windhoek and the International Finance Corporation (IFC) jointly introduced the free to use EDGE (Excellence in Design for Greater Efficiencies) green building certification system to stakeholders in the local construction industry.

Developed and created by the IFC, a member of the World Bank Group, EDGE is a measureable way for builders to optimise their designs, leading to a more investment-worthy and marketable product.

The software tool also enables the user to determine the ideal technical solutions to reduce environmental impacts while capturing upfront costs and projected operational savings, within a local climate context.

“Based on a building’s parameters, the EDGE software discovers energy- and money-saving design opportunities through region-specific and use-based analysis. As a free design tool, EDGE presents hypothetical costs, savings and payback periods for green building measures such as low-flow taps and solar connectors, helping developers and buildings make the business case for green building,” said Lenore Cairncross, Green Building Lead for Africa at the IFC.

Cairncross added that projects achieving a 20% projected reduction in use of energy, water and embodied energy in materials compared to conventional buildings are eligible for EDGE certification.

“Certification is offered at a modest cost by Green Business Certification Inc in order to validate project achievement for financial and community stakeholders,” said Cairncross. “By using the EDGE software and obtaining the required certification, developers can submit their finance proposals with the peace of mind that it meets international standards for building green,” said Ruan Bestbier, Sales and Sustainability Analyst at Bank Windhoek.



CONSTRUCTION OF NEW US EMBASSY EXPECTED TO SIGNIFICANTLY BENEFIT LOCAL ECONOMY

The construction of the new U.S. embassy will significantly benefit the local economy, U.S. ambassador to Namibia, Lisa Johnson said at a groundbreaking ceremony in Windhoek. Johnson was joined by the deputy minister of international relations, Jennelly Matundu and the former Windhoek mayor, Her Worship Fransina Kahungu at the site of the new U.S. Embassy campus in Klein Windhoek. According to Johnson in addition to job creation, the U.S. construction firm is currently procuring goods and services from more than 50 local companies.

"The US construction firm BL Harbert is already employing more than 200 Namibians and over the three year construction period more than 2000 Namibian will be employed at various stages," she added.

Furthermore, Johnson said the project is already injecting more than U\$700,000 in the local

economy each month. Johnson said the new embassy will evoke Namibia's beautiful landscape, featuring materials including red sandstone and light-coloured limestone.

Landscaping will use exclusively indigenous trees and other plants and the facility will make solar power to generate 50% of the main chancery's power needs," she said. Meanwhile, once complete in 2023, Johnson said the embassy campus doors will be open to the public and an American Centre, where the Namibian public can learn more about America, will be incorporated into the main embassy building.

"This new embassy will benefit both Namibia and America, and will further strengthen our cooperation for decades to come," she concluded.

Source:

<https://economist.com.na/54643/general-news/construction-of-new-us-embassy-expected-to-significantly-benefit-local-economy/>



Caption: US Ambassador to Namibia, Lisa Johnson (m), Deputy Minister of International Relations, Jennelly Matundu (l) and Windhoek's former mayor, Fransina Kahungu (r) at the groundbreaking ceremony of the new US Embassy campus in Windhoek.

FURTHER THOUGHTS ON NEEEB

The Construction Industries Federation (CIF) took part in further consultations with regard to the Namibian Equitable Economic Empowerment Bill (NEEEB), at a platform provided by the Namibian Chamber of Commerce and Industry (NCCI) on 22 February 2021. The CIF raised its concern about:

- the suitability of NEEEB to address the poverty and inequality in Namibia and the lack of research-based evidence of the proposed bill and there being no sunset clause;
- questionable power of the minister to determine standards;
- the timing of tabling NEEEB in parliament especially as Namibia needs to attract investments considering the poor economic state of the country;
- that the proposed harsh penalties for fronting and the relative small penalties for those that had undeclared conflict of interests;
- the lack of clarity of the bill with regard to its standards, which are to be determined by a minister; and the lack of clarity as to whether compliance would be voluntary or compulsory.

The biggest concerns the CIF has is whether NEEEB will indeed bring about the desired results. In the latest draft of NEEEB it is made clear that "empowerment beneficiaries", are to be recipients of the benefits that the implementation of NEEEB should bring about. According to the definition of "empowerment beneficiaries" it includes all "previously disadvantaged persons" in Namibia, except white women. This definition therefore does not exclude "currently advantaged previously disadvantaged persons".

On the contrary, it would also include any previously racially disadvantaged persons, and their offspring, despite having had access to good education – even to most renowned universities, and those that have access to finance due to more recently accumulated wealth. It would also include leaders of the current business and the political elite.

The CIF is of the view that for NEEEB to bring about desired results that the "currently advantaged previously disadvantaged persons" should not be considered as empowerment beneficiaries as indeed they already were empowered with accumulated wealth and ample access to opportunity and finance.

The question is then as to who should really benefit from NEEEB in order to meet the objectives of NEEEB,

UNDERBIDDING IN THE CONSTRUCTION SECTOR - DOES MORE HARM THAN GOOD

Here are eight of the biggest risks to contractors who engage in underbidding on a construction job.

1. Hurting your reputation

They say you never get a second chance to make a first impression, and that is essential in this line of work. In the construction industry, reputation is everything. In this sector, when networking and word-of-mouth have such power, you live or die by what others think of you. Underbidding can help you secure work in a pinch. Unfortunately, you'll become known for being the cheapest option on the market if you do it frequently.

This might sound like a good thing at first. You'll be at the forefront of everyone's mind when they're looking for an inexpensive contractor. However, over time, you'll find that it becomes impossible to bid for more lucrative jobs because that reputation will be standing in the way. Clients you've worked for in the past will see your higher bid and may disregard it entirely because they're expecting you to be at the bottom of the pack.

2. Damaging your bottom line

Many companies turn to underbidding when things get lean. Or, they've spent a lot of time between jobs, and need to earn extra cash while they wait for things to pick up again. The problem with this is that it's easy to fall into the trap of underbidding. You start bidding low, and you find yourself stuck in a loop. It can be nearly impossible to get back to a point where you can begin bidding on better and more lucrative jobs. Large companies and those with well-established reserves can afford to occasionally underbid without damaging their bottom line. However, small companies that are working from job to job don't have that luxury. It doesn't take much to move from stability and profit to instability and loss, and perpetual underbidding can contribute to this negative shift.

Perpetually underbidding can damage your reputation, your bottom line, and even your competition as everyone tries to make the most of the scraps that are left.

3. Jeopardising future jobs

Many business owners underbid on jobs to fill the calendar while they're waiting for a new and more lucrative opportunity to cross their path. Underbidding occasionally for this purpose usually doesn't have any adverse effects — but making it a habit could potentially jeopardise your ability to secure those better jobs in the future.

This can take several different shapes. You may find your calendar is filled with these low-end jobs when a lucrative opportunity comes along. Your bid may be ignored by clients that have grown accustomed to your underbidding. You may not even be invited to submit a proposal on the projects you really want to work on.

4. Encouraging industry-wide deflation

Underbidding doesn't just affect you and your company. It can have far-reaching impacts on the entire local industry, because so much of this sector is based on direct competition. If you start securing all the low-dollar jobs that are on the market, everyone else will likely begin to do the same just so they can compete. Over time, this can encourage the entire sector to deflate.

If this trend continues unchecked, it can cause irreparable damage to the local construction industry. Underbidding once in a while won't cause the economy to collapse, but making it a habit could lead to deflation that no one is equipped to recover from.

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We recommend avoid. underbidding whenever possible. In the long run, you will be able to build a better and more lucrative business without cutting corners and taking on all sorts of risks.

UNDERBIDDING IN THE CONSTRUCTION SECTOR - DOES MORE HARM THAN GOOD

5. Causing payment disputes

Payments are the lifeblood of every aspect of the construction industry, from the contractors to the business owners and everyone in between. When you add underbidding to the mix, payments become challenging.

Underbidding can lead to everything from workmanship disputes and schedule delays to change orders — that can all, in their own way, lead to payment disputes. Underbidding means you may not be able to maintain your payment schedules, especially if change orders or delays cut into your profits, making it impossible to pay everyone on schedule. In this case, the easiest way to prevent payment disputes is simply to avoid underbidding.

The risk of underbidding isn't worth any potential benefit where payments are concerned.

6. Missing deadlines

Every construction company owner knows that deadlines are to be respected, but they're not set in stone. If you're constantly underbidding and taking on more jobs than you can handle in an effort to keep the metaphorical lights on, keeping up with all those deadlines will become nearly impossible.

In addition to costing you more than you'll likely make from the project, perpetually missing deadlines will damage your reputation even more, making it harder to secure work in the long run. No one wants to work with a company that can't make good on its promises and won't be able to meet deadlines.

7. Delivering poor-quality work

If you're buried in contracts that you secured through underbidding, you may be struggling to keep your head above water. In this case, it's easy to get overwhelmed, which could lead to cutting corners. Constantly delivering poor-quality work will lead to costly repairs and replacements, as well as damage to your reputation that may be impossible to repair.

You don't want to be known for being a substandard or nonperforming contractor. Even if you rectify the situation and return to delivering high-quality work, that history will continue to follow you like a dark cloud, forever coloring future interactions with clients.

8. Reduced bondability

Bid bonds are often required to protect the project owner from the financial risk of underbidding. If the contractor can't complete the project as bid, the bond surety steps in to make it right.

Surety companies frown upon construction companies who can't bid accurately — it increases the risk of contract default. When underbidding causes a contractor to default and leads to a claim against the bond, the surety company will likely raise bond costs on the next project — or flat out refuse to issue one.

Source:

<https://www.levelset.com/blog/biggest-risks-of-underbidding/>



AFRICAN UNION TO SET UP INFRASTRUCTURE FUND FOR THE CONTINENT

The African Union (AU) is setting up a fund to finance the construction of much-needed roads, railways and power plants on the continent, its infrastructure head said, turning to new sources of cash due to donor fatigue and higher debt levels.

The continent has an estimated annual infrastructure financing deficit of \$60 billion-\$90 billion, the AU says, making it hard for the body to advance its goal of integrating the disparate individual markets into a single, free trade area.

"Africa is financially starved as far as the need for infrastructure development is concerned," Raila Odinga, who is the AU's high representative for infrastructure, told Reuters.

The 55-nation AU is now turning to sovereign wealth funds, insurance and retirement funds in countries like South Africa, Angola, Nigeria Morocco, Egypt and Kenya, to raise the cash.

The funds will be invited to invest about 5% of their holdings, Odinga said, "which is actually going to be more lucrative for those institutions,

rather than having funds lie idle".

Talks with the funds are going on and the AU's experts are setting up the legal and financial structure for the infrastructure fund, which will be administered by the newly formed African Union Development Agency, Odinga said.

The move bucks the past trend of dependence on wealthy donor nations and borrowing from financial markets.

China, which has been one of the biggest funders of infrastructure projects on the continent over the past decade, has cut back on lending due to high debt levels among individual nations like Kenya.

"We are now trying to think out of the box," Odinga said.

The drive to find new ways of funding the construction of roads and railways and other utilities comes as Africa seeks to bring together 1.3 billion people in a \$3.4 trillion economic bloc known as the African Continental Free Trade Area (AfCFTA).

"This infrastructure is urgent for the realization of the AfCFTA, otherwise it is just going to remain on paper," Odinga said.

It was critical to connect landlocked nations to ports on coastlines, and complete missing links for transcontinental highways, to facilitate the free flow of goods under the AfCFTA and lift people out of poverty, he said.

"Africa needs to trade with itself," Odinga said, citing figures which show intra-African trade is just 15%, compared with intra-European trade levels of 70% and 50% in Asia.

Source:

<https://www.reuters.com/article/africa-infrastructure/african-union-to-set-up-infrastructure-fund-for-the-continent-idUSL8N2KP1YI>

