**TRAINING IN FINANCIAL AND BUSINESS MANAGEMENT FOR ROAD CONTRACTORS**

**MODULE ONE SESSION TWO PARTICIPANTS’ NOTES**

 **THE ROAD SECTOR ENVIRONMENT**

**1. Purpose of session:**

1. The purpose of this session is to create awareness of the role of the road sector to socio-economic development in Uganda. It also emphasizes the importance the GoU has given to the road sector.
2. Participants will be able to identify core road construction stakeholders and the role they play in the sector.
3. Create awareness of overseeing agencies that enhance transparency and accountability, a necessary ingredient in the sector.
4. The session will outline the road construction cycle and identify ethical issues in and key challenges of the road construction sector.
5. Lastly, the session will bring up awareness of the recent National Construction Policy.

**1.2 Road stock in Uganda:**

Over 90% of passengers and 96.5% of freight transport in Uganda is by road. Uganda is not only land locked but also a road transit route to Rwanda, Burundi, DR Congo, and South Sudan. There is minimal alternative transport to roads. The rivers are hardly navigable, air transport is not viable due to cost and short distances, and railway has largely been abandoned except the stretch from Kisumu to Kampala.

**1.3 Category of roads in Uganda**

The roads are categorized national, district, urban or community in accordance with the entity charged to oversee them. Increasingly however, district roads are being reclassified as national. The current road stock is as follows:

* National roads: Total 20,800kms of which 3,050kms are paved. (16,750kms unpaved).
* Urban roads: 4,800kms some paved but the exact extent not stated.
* District roads: 17,500kms (22.4%) all not paved.
* Community roads: 35,000kms all not paved.

The country’s road stock totals 78,000kms of which 74,000kms are not paved. This defines the potential market for the road contractors in Uganda. Generally the road stock in Uganda is still low at 39.6kms/100sqkms compared to countries like India’s whose road stock is 111.7kms/100sqkms and South Africa’s with road stock of 62.1kms/100sqkms.

**1.4 Rising investment in roads**

The Government of Uganda has been increasing investment in road infrastructure. This sector is the third highest funded in the 2012.13 budget. The latest National Budget 2012/2013 has emphasized the road sector as one of the priority areas for government. Not only have absolute figures allocated been increasing but the proportion of contribution by government as compared to donors and funder has significantly changed. Investment allocation in the sector increased by 41% from $461m to $650m between 2007/8 and 2011/12. During the same period, the budget allocation to roads has increased by 83% while overall government road financing has increased from 55% in 2007/8 to 72% in 2011/12.

In 2009/10 financial year, 12,258kms of district roads were targeted for routine mechanized maintenance. Currently, the proposed 2012/13 works and transport sector budget is UGX. 1,651 billion, being 16.8% of total budget and the third highest budget line next to education (17%) and energy! Therefore the road sector is a priority area for government and continues to attract heavy investment from government.

**1.5 Road sector development plans:**

Government has had several road sector development programmes the current one being RSDP3 running up to 2014/15. RSDP3 targets to improve the stock and quality of road infrastructure and sets the following targets:

* + Improving the national paved roads 1,100kms from 3,050kms to 4,150kms
	+ Reconstructing and rehabilitating part of the stock from fair to good condition.
	+ Improving efficiency and effectiveness in service delivery through policy, legal and regulatory framework and
	+ Strengthening the national construction industry generally.

**1.6 Challenges in the road construction sector:**

The Ugandan road construction sector has several challenges however the most pressing one is the rapid increase in the cost of road works. There is real concern as to the cause and whether contractors are delivering value for money. The cost of constructing a standard kilometre of a double bitumen road has risen from $420,220 in 2007 to $1,200,000 in 2011. The escalating cost of construction is said to be driven by distance from the sea, depleting raw materials, defective design and shortcomings, excessively delayed payments to contractors and the depreciating currency due to domestic and imported inflation.

The sector is also characterized by weak competition, particularly in the bitumen works subsector that is dominated by a handful of foreign contractors. An analysis of the pattern of recent tenders awarded by UNRA, where nine jobs were tendered and each participant emerged with a job, suggested possible collusion amongst the bidders. It is also feared that there is collusion between contractors and consultants. The quality of work is also a major concern. Recently, the office of the Auditor General was requested to conduct a special investigation on a number of ongoing or recently completed contracts to assess quality of works and compliance with set standards. The findings are appalling. Given the escalating costs and the state of workmanship, another factor is corruption. Some contractors claim that they pay to get contract awards, for certificates as well as to get payment for work done! There are incidents too of payments made for no work done.

The national construction industry is seriously undeveloped. There are many road contractors who are ill equipped, poorly capitalized and lacking technical capacity and business acumen. Financial discipline is lacking and relationship with financial institutions is indeed poor. Local contractors have not effectively participated in the major road construction assignments in Uganda. Major road construction works have been dominated by foreign construction firms.

**1.7 Overview of Local contractors:**

Local contractors have failed to compete for major contracts of road works possibly because:

* 1. They are many but small in size.
	2. They have insufficient and erratic workload that make them see road contracting as part time work.
	3. They do not retain adequate technical capacity and many cases they only engage staff as casuals.
	4. They have a small finance base, and many fail to raise bid bonds, performance bonds or advance payment securities.
	5. The ability to make sound business decisions is low as they lack basic business management skills.
	6. They have very limited access to equipment and at times only at exorbitant cost.
	7. Many do not have a track record of past performance that would enable them to participate in big jobs. There is no requirement for big players to sub contract hence leaving a gap as to how they will acquire the requisite exposure.
	8. Given the small size of many local contractors plus a weak finance base many are unable to go through the prohibitively long tender processes that include several requirements such as purchase of tender documents, multiple trading licenses, tax clearances, registration certificates etc.

**1.8 Road Construction Stakeholders:**

Stakeholders are individuals or organizations that affect and are affected by each others’ activities in road construction. There are many stakeholders in the road sector however the major ones include the following:

* Government of Uganda that is responsible for roads and transport plans as well as to allocate resources for road sector development. The Ministry of Finance and Economic Development plays the role of identifying funds necessary to meet the sector plans. Funds are mobilized and extended to the lead ministry, specialized agencies and to local governments.
* The Ministry of Works and Transport determines policies and oversees the entire transport sector including roads. The Ministry sets political guidance, legal and policy guidelines and monitors directly or through specialized agencies.
* Uganda National Roads Authority is responsible for design, contracting, and supervision of road works. UNRA contracts out national road services and carries out limited emergency road constructions.
* Uganda Road Fund is responsible amongst other things for allocating funds to be used by local governments in the maintenance of roads under their jurisdiction and to sensitizing and educating road users on sustainable usage of roads
* Central Materials Laboratory carries out all tests on the materials for certification to be used in designing and construction of roads.
* Funders and development partners: e.g. DFID, European Union, Government of Japan, Peoples Republic of China, USAID, World Bank, IMF, African Development Bank etc. These agencies provide long term loans or grants to help in growth of the road sector.
* Public Procurement and Disposal of Assets Authority (PPDA): It is concerned with monitoring that contracts are awarded through transparent procedures and continues to evaluate if there was value for money for contracts awarded, and also to streamline any anomalies that may have come up during the process of procurement. There are stringent procurement procedures that need to be followed by procurement agencies under the supervision of PPDA.
* The local governments are responsible for district and community roads development and maintenance for which works they budget, tender and supervise.
* Road contractors who offer service for road construction, rehabilitation and maintenance.
* Lastly we have the general public who use the roads for their economic and social welfare.
* Not only does society exploit the roads but also pay taxes to fund and at times participate in voluntary community effort (bulungi bwansi) for the sector. Not only does the public influence the road sector development plans but also suffers the brunt of shortcomings of plans and activities of the road sector. Farmers, traders, motorists and consumers all pay a heavy price for bad roads.

**1.9 Overseeing agencies:**

Overseeing Agencies are bodies that generally monitor the works and activities of the road sector. The main responsibility of overseeing agencies is to ensure transparency and accountability. In addition to UNRA, UNRF and PPDA that are also indicated above the following should be noted:

* ***Auditor General*** makes annual audits on Central and Local Governments funding. AG also audits contracts that use the tax payers’ money to check whether the money was utilized well or not. AG ascertains whether appropriate procedures were followed and funds accounted for and then makes recommendations to other overseeing bodies to take more action if necessary.
* ***Inspector General of Government*** brings to book those who abuse the tax payers’ money and prosecutes them.
* Police is charged with carrying out criminal investigations, arrest and prosecute those who misuse or misappropriate tax payers’ money.
* ***District Public Accountability Committees*** at local level deal with matters raised by Local Governments Internal Audit Departments and those of the Auditor General.
* ***Public Accountability Committees of Parliament*** act on matters raised by the Auditor General. Other sectorial committees e.g. Works or Local Governance committees investigate and recommend appropriate action on a relevant road sector matters.

**1.10 Road Construction Cycle:**

1. Identification of the need and design of the road by the Consultant and UNRA
2. Identification of funds and procurement the contractor and the consultant
3. Mobilization (developing the team, machinery and selection of sub-contractors)
4. Site establishment and setting up
5. Actual interpretation of the design construction and supervision
6. Contract management and review (variations)
7. Project completion and commission
8. Project review (where appropriate)

The cycle is long particularly for road construction and major rehabilitation works. From conception to completion, road construction projects could easily extend over several years. Part of the reason for the length of the cycle is the period it takes to raise necessary funds. However at a local level the cycle is broken into two simpler cycles.

* The Prequalification cycle and
* The Road Works cycle.

The prequalification cycle starts when a local government invites contractors to express interest to participate in road construction. The invitation normally requires the contractor to supply particulars about themselves, including experience, capacity, licenses, tax clearance, technical and managerial details. Evaluations are done and prequalified firms advised. The firms then wait for invitation to quote for specific jobs.

The road works cycle starts when the prequalified firms are invited to quote or express interest for specific road works. The bidders are provided with bid documents to quote for specified works. Bidders may be required at this stage to provide a bid bond. The bids are then evaluated and an award made to a successful bidder while debriefing notice is given to unsuccessful ones. On receipt of an offer a contractor should do a bid validation to reconfirm internally of the ability to conduct the awarded bid. A performance bond is usually requested before a works contract is signed. In addition, an advance bond may be required to secure the amount of advance payment to be made to the contractor.

The contractor then goes through several stages of executing the work that include preliminary works, mobilization, rehabilitation of existing works, delivery of fill materials, drainage and gravelling. As the work progresses, works that are completed are periodically assessed and certified. The client will pay for the certified works but less retention moneys. The retention money will only be paid at the end of the retention period of say three to six months, during which any defects will have to be put right. Retention money however could be received earlier if a security guarantee is provided to the employer. At completion, the works are handed over and demobilization from the job done.

The actual time taken from bidding, through award to demobilization will depend on the size and complexity of the job. The cycle can be long, with serious cash flow implications that require careful financial management and business skills.

**2.0 Ethical Issues in the road construction sector:**

There are a number of ethical challenges in the road construction sector that include the following:

* Contamination of the soils by construction material and debris
* Degradation of vegetation including opening up vegetation cover and cutting down of trees.
* Soil erosion resulting from removal of vegetation cover and making of inadequate drainage channels.
* Inadequate perimeter fencing of construction sites.
* Careless execution of demolition and construction.
* Storage of construction waste products offsite.
* Inadequate protection for public from debris, hazards, dust and nuisances due to road works.
* Using a small sample to represent other areas whereas the sample is not representative of the rest.
* Forgery of results in the laboratory.
* Collusion between the consultant and materials owners (e.g. boreholes & quarries).
* Fraudulent practices where non-existent or substandard work is paid for.
* Sheer negligence in the performance of work.
* Dishonesty, collusive tendering and bribery.
* Conflict of interest; where bidders/contractors are conduits for the administrators who do award tenders or political leaders who oversee the works.
* The other common forms of unethical conduct witnessed or experienced in the industry, include: unlawful industrial action initiated by Union Bodies, impropriety in Government Tendering Practices, under bidding to gain work or shut out competition, culture of large construction companies, unethical practices in government organisations, abuse of variations to inflate costs and impact of political influence (central & local) to bend tenders, quality control and payment procedures in the road sector.

**2.1 Highlights of the National Construction Policy and strategy:**

In order to strengthen the weak national construction industry, government promulgated the National Construction Policy that clearly stipulates the role government intends to play over the coming years.

The policy stipulates seven policy objectives each with appropriate strategies as shown below:

1. **Harmonize roles and responsibilities of the public and the private sector:**

Government intends to decrease involvement of public sector in service delivery and disengage from physical infrastructure construction through training and capacity building, strengthening public institutions and improving service delivery of private sector.

1. **Regulate and coordinate the National Construction Industry:**

Government intends to regulate the activities of the stakeholders and coordinate public private sector dialogue for development of the sector through establishing the **Uganda Construction Industry Commission (UCICO)** and strengthening and supporting the regulatory and professional bodies.

1. **Develop and strengthen local capacity for effective participation:**

Government plans to develop and strengthen the capacity of the local contractors, consultants, suppliers and manufactures for effective participation through supporting UNABCEC, UACE and other business associations to be formed in the Industry.

1. **Increase access to equipment, credit and work:**

Government will facilitate local contractors and consultants to access equipment, credit and work through establishment of a privately managed plant hire pool, relax tender terms related to advance payment, performance guarantees and access to up-front financing, set up a contributory construction guarantee fund, increase contracting work to local firms and ensure mandatory sub-contracting of not less than 20% of the contract sum and at least 30% of consultancy services.

1. **Promote use of new and appropriate technology:**

Government will promote use of appropriate technologies in construction and infrastructure maintenance by promoting use of labour-based technology and the undertaking of research in new technologies.

1. **Remove restrictive practices to participation of marginalized groups:**

Restrictive practices which deter marginalized groups such as women, youths, physically challenged etc will be removed while the needs of the marginalized will be imbedded in construction planning.

1. **Promote sustainable economic and social development:**

The NCI will support sustainable economic and social development through protection of the environment, promoting occupational health and safety at work and providing security to service providers in insecure areas.

**Discussion topics:**

1. Discuss how Munaku is similar or different from a typical local contractor.
2. List the key stakeholders and their roles in the road construction sector and outline the importance of a road contractor to the country.
3. Describe the road construction cycle and suggest a likely time frame to it and the problems that it may cause to financial and business management.
4. Discuss the extent to which the National Construction Industry Policy addresses the concerns of road contractors.
5. Identify the key challenges to a road contractor and suggest how they can be addressed.
6. Outline key ethical issues in the road construction sector and discuss how they impact on the quality and cost of road works.