
Developing Local Contracting Industry

Presented by

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Background

In May 1993, SADC organized a Seminar to start SACII, and recommended:

- Develop national construction policy
 - Commercialize Govt owned equipment
 - Set up NCC to create a forum of all stakeholders interested in the construction industry
 - Promote appropriate technology
 - Train contractor to develop capacity of PS
 - Phase out FA procedures of Road Maintenance
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How a Government Department Can Transform Force Account Road Maintenance to Contracting

- There are two versions of WB Papers: TN31 – 7p, TP-11- 30p (WB web site)
 - Experience in 5 SSATP countries;
 - How to carry out situation analysis;
 - Strategic options and action plan.
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Funding & Management of Study



- DFID (UK) Trust Fund – Transport & Rural Infrastructure Services Partnership (TRISP).
 - In consultation with Govt agencies, road authorities, and private sectors.
 - Bank peer reviewers and other colleagues.
 - Study Team
 - **Adam Andreski, Lead Consultant**
 - **Wendy Walker, Consultant**
 - **Subhash Seth, Task Team Leader**
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Why these guidelines are important

- Road asset value in SSA around \$150b;
 - Force account procedures found inefficient;
 - Contracting cost effective (Cambodia study 24%) more efficient, (Talvitie 5-15%);
 - Countries have different sector policies and approaches for phasing out FA procedures.
 - Guidelines provide range of options to allow for specific situations
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The 5 countries Selected

- **Lesotho** has successfully developed contractors for unpaved roads using labour based methods and now is expanding to paved roads
 - **Tanzania** is a pioneer
 - **Malawi** and **Zambia** have made good progress in the transformation
 - **Mozambique** started by creating state owned companies and then privatized gradually
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Study Methodology

- Reviewed existing reports
 - Developed a questionnaire
 - Visited the case study countries
 - Conducted interviews and workshops with stakeholders including Road Agencies, Construction Councils, Contractors and Consultants
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Case Study Lesotho

- Prior to 1993 road maintenance done by force account
 - 1994 contractor training program started
 - Today there are 85 contractors
 - RM of unpaved road works fully contracted out
 - RM of paved roads still done by force account
 - Other countries are visiting Lesotho on study tours
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Case Study Malawi

- Transformation commenced in 1995
 - Structures to absorb laid off workers not in place
 - No pre-planned organisation for Ministry staff
 - Role of Ministry not clearly defined in NRA Act
 - Roads training declined for around 5 years
 - Mixed performance by contractors
 - Force account still popular in some quarters
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Case Study Mozambique

- Prior to 1983 100% of works were done by force account, now zero
 - In 1980s 10 state owned companies created (ECMEPs) then merged into 3
 - Initially ECMEPs guaranteed contracts plus subsidies but now open competition
 - ECMEPS payroll greatly exceeds income and unsustainable
 - No construction council yet
 - One large state contractor privatized and now successful (was formed from nationalised firms)
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Case Study Tanzania

- National Construction Council created 1979 and Contractors Registration Board in 1998
 - Change to contracting started in 1991 with RMI and creation of Road Fund
 - Force Account system failed in Regions
 - 1995 Tanzania Contractors Ass. created
 - 1998 Road Fund Board Appointed
 - 2000 Tanroads created
 - Industry Development funds being set up
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Case Study Zambia

- Donors supported Force account in 1980s
 - 1993 force account ceased abruptly
 - 1995 National Road Board established under RMI
 - 1998 NCC created
 - 2002 Public Roads Act creating RFA, RDA and RTSA
 - Sector centralised although Act allows for decentralised Local Road Authorities
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Detailed Findings

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***Reducing Poverty by
Enabling Access***

National Development of Contracting Industry Tanzania

- National Construction Council 1979
- Management Action Group set up 1994
- Tanzania Civil Engineering Contractors Association set up 1995
- Contractors Registration Board 1998
- In 1986 43 contractors and 2005 > 1,000
- Equipment available for hire from Tanroads plant pools



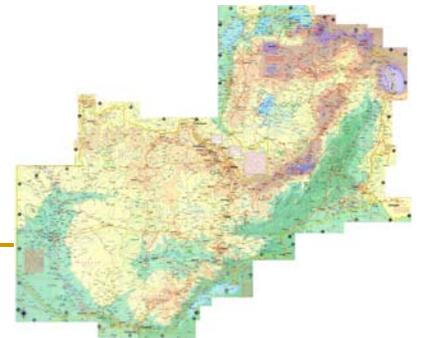
Development of Contractors Malawi

- National Construction Industry Council created ~ 1999
- Training in road sector dipped
- NRA still do not recognise NCIC training
- Force Account still being promoted by Ministry
- Few contractors based in districts
- >400 contractors now on NCIC register



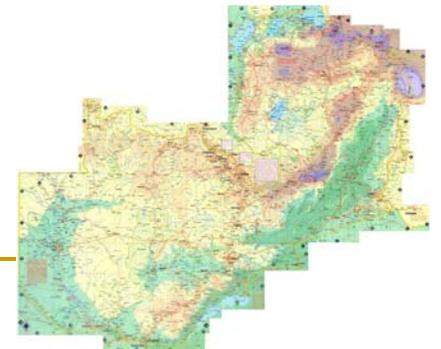
Contracting Zambia

- 1993 - President Chiluba introduces private sector reforms in most sectors
- ~1995 – Cartels broken by importation of foreign contractors
- 1995 – 2001 – greenhouse contracts in E. Province
- 1998 – National Construction Council
- 2002 – New Transport Policy & Road Act
- 2006 – 450 contractors



Zambia Consultants Recommendations

- Conduct Baseline study and use for monitoring
- Salvage Government plant and equipment by putting in plant pool or selling off
- Set up contractor development scheme:
 - Greenhouse contracts rolled out nationally
 - avoiding onerous contractual obligations for bid, advance and performance bonds and liquidated damages
 - providing \$1m soft loans to medium scale contractors against collateral,



Seven Step Process Recommended

- 1) Situation Analysis
- 2) Constraints Analysis
- 3) Identify Options
- 4) Develop Transformation Strategy & Action Plan
- 5) Address Social Issues
- 6) Implementation
- 7) Monitoring & Control

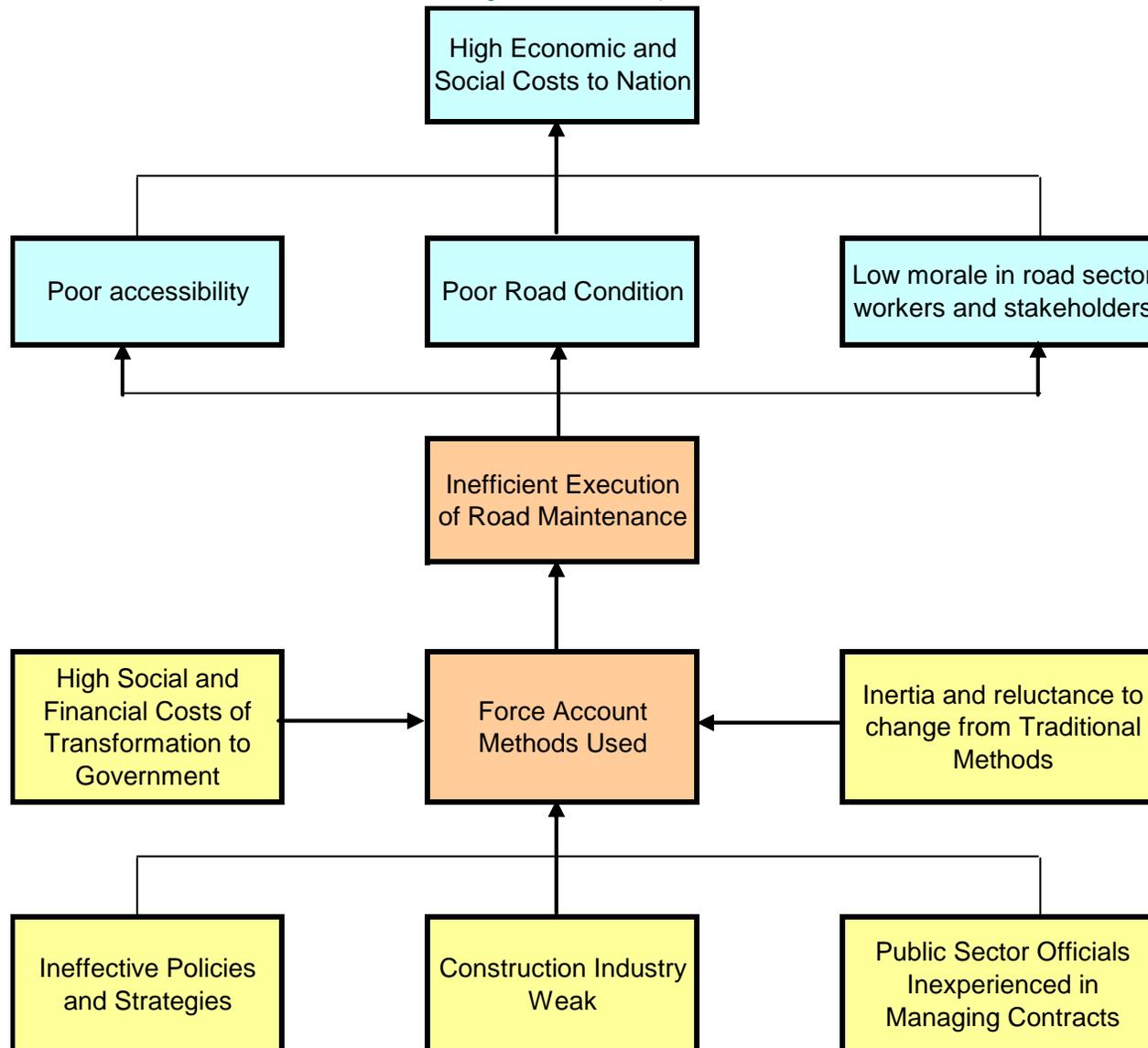


1. Situation Analysis

Excellent	E
Good	G
Mediocre	M
Poor	P

Private Road Sector	
Constuction Industry Policy	E
Contractor Registration System	G
Contractor Training Program	M
Contractors Associations	G
Credit Availability	P
Bonding & Contractual Environment	P
Capacity of Large Contractors	G
Capacity of Medium Contractors	M
Capacity of Small Contractors	P
Quality of Work	M
Volume of Work	G
Regularity of Work/Payments	P
Availability of Equipment	M

2. Constraints Analysis (Problem Tree)



3. Options for Developing Contractors (1)

- Vertical & horizontal packaging of contracts
 - Set up National Construction Council
 - Regulate contractors through registration
 - Facilitate contractors associations
 - Train contractors
 - Greenhouse contracts
 - Technical competitive tendering (Iringa Model)
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Options for Developing Contractors (2)

- Client takes risk and relaxes bonding and collateral requirements
 - Set up credit schemes
 - Donors provide guarantees to local banks
 - Appropriate low-cost specifications
 - Encourage local innovations
 - Remove tax breaks for foreign firms
 - Local preferences for bidding
 - The Development Team model
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Survey Grading

Highly Recommended	Recommended	No Opinion	Not Recommended	Absolutely Not Recommended
2	1	0	-1	-2

Survey Results 1

Strategic Options	Les	Mal	Moz	Tan	Zam	Average
Enhance credit availability for contractors	2	2	2	2	1	1.8
Allow appropriate standard specifications	2	1	2	2	2	1.8
Regulate contractors through registration system (national, local)	2	2	1	1	2	1.6
Set up National Construction Council to develop contractors	2	2	1	1	1	1.4
Facilitate creation and operation of contractors associations	2	2	1	1	1	1.4
Let private sector respond on its own having created market	1	1	2	1	1	1.2

Survey Results 2

Strategic Options	Les	Mal	Moz	Tan	Zam	Average
Train contractors - classroom, “greenhouse contracts”, mentoring	1	2	1	1	1	1.2
Promote innovative local products	2	1	1	1	1	1.2
Construction trust funds	-1	2	1	2	1	1.0
Create barriers or remove subsidies to foreign contractors	2	-1	-1	1	1	0.4
Provide subsidised plant and equipment to contractors	-1	1	-1	1	1	0.2
Allow “high” risk tendering (reduced bonds, large advances)	-1	1	2	-1	-1	-

4. Action Plan

Year	1	2	3	4	5	\$m
Phasing in Contracting						
Set up (or strengthen) National Construction Council						1.0
Establish contractors registration scheme		■				0.3
Package contracts horizontally & vertically		■	■	■		0.1
Create/support Contractors associations		■				0.2
Train & develop contractors		■	■	■	■	3.0
Encourage joint ventures with foreign companies			■			0.1
Review bonding and other contract conditions			■			0.2
Review contract specifications				■		0.3
Establish Industry Development Fund						2.0
				Total		11.6

5. Address Social Issues

- Women need to be fully empowered (e.g. bank accounts in Lesotho)
 - Youth should be encouraged
 - Camps and working conditions should be of good standard
 - Environmental mitigation measures should be in place
 - HIV/AIDS training can be provided
 - Many of these issues can be included as clauses in the contract documents.
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6. Implementation

- Steering Committee
 - Implementation Team should have a wide range of skills
 - Budget is required
 - Regular consultation with stakeholders
 - Policy, Cabinet Paper and legislation may be required
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7. Monitoring Indicators

- Road Asset value
 - Unit maintenance costs for selected activities
 - Overall value and numbers of contracts performed grouped by contractor class and contract value
 - Timeliness of contract procurements and payments
 - Volume of force account works carried out in terms of exp. and coverage of network
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Lessons Learned

- Systematic approach required
 - Avoid do nothing option
 - Need to cater for institutional framework
 - Careful consideration required of needs of local roads – avoid centralization
 - Do not forget training or materials functions
 - Train and nurture small & medium contractors
 - Ensure local ownership
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