

PRESS RELEASE

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Sustaining the Construction Industry

The Association of Ghana Industries (AGI) Construction Sector wishes to make the following proposals to government as part of efforts to improve construction business and enhance the sustainability of the industry.

The AGI Construction Sector was established with the vision to be the most active and vibrant construction industry mouthpiece in championing construction industry development initiatives. To achieve this, it seeks to influence the development and growth of the construction industry, through effective stakeholder engagements and policy reform initiatives that will enhance the capacity and competitiveness of construction sector service providers in Ghana. Since its establishment, it has championed a number of initiatives with the support of the Business Sector Advocacy Challenge (BUSAC) Fund and its Partners: Danida, EU and USAID.

The key proposals we wish to make to government include the following:

1. Legislate interest payment on delayed payment for public construction works;

Delayed payment is a major problem in the Ghanaian construction industry. Government projects have become notoriously popular in this regard. However, contractors often borrow working capital from banks in order to finance their construction operations and invariably

have to pay interest on these borrowings. Delayed payments increases credit default tendencies and actual defaults. Consequently, it becomes more difficult for construction firms to access credit from the banks. Indeed, most banks consider government projects as risky because of the common issues of delayed payments associated with them. They have therefore become increasingly disinterested in lending to the construction sector; thus, threatening the sustainability of the already low-capitalised local contractors. The passage of the construction industry Delayed Payment Law is expected to ensure the following:

- i. Funds for construction projects are well budgeted for and are available before the commencement of the project;
- ii. Make provisions for compensation to be paid to contractors in the event of delayed payments. This would ensure justice in the construction industry and promote the sustainability and development of firms and the industry.

2. Acceptance of Bid Declaration as replacement of Bid Security;

Bid Securities / Guarantees come at a great cost to the Bidder, often set either as a percentage of the bidder's offer or as a percentage of the allocated budget for the procurement requirement. High insurance cost, high bank charges and collateral security requirements have introduced inefficiencies into the construction industry that is constraining the ability of local contractors to compete for bidding opportunities. When bids are successful, the financing cost and cash flow problems associated with bid security requirements threaten the sustainability of Local Ghanaian Contractors. A replacement of bid securities with bid declaration documents is expected to:

- i. Improve contractor liquidity;
- ii. Reduced cost of projects and business operations;
- iii. Enhance the competitive bidding process to include more local contracts; and
- iv. Reduce delays in procurement procedures.

3. Local Content Policy for the construction sector in Ghana;

Since independence, most large scale construction projects have been executed by foreign companies, which often leads to capital flight, lack of technology transfer and a lost of opportunity to build the capacity of local construction firms. Local content policies prescribed by the UN have been used elsewhere (i.e. US, Singapore, China, India) to develop construction industries. However, Government's plan about local content in our construction industry is uncertain and needs to be concretised. Through a series of stakeholder dialogues, a draft local content policy for the construction industry has been developed for Stakeholder adoption and Government's buy-in. The policy is expected to yield the following outcomes:

- i. Increment in the share of public construction procurement to local construction companies;
- ii. Increment in construction jobs from public procurement of infrastructure to Ghanaians;
- iii. Increment in the opportunities and incentives for local construction firms to develop their capacity;
- iv. Increment in construction technology transfer;
- v. Sustainable management of public infrastructure.

4. Acceptance of Payment Certificate to defray statutory payments.

Payment certificates for various public construction procurements financed by Government are often issued to contractors but the actual payment often delays. Despite the liquidity and cash flow constraints that delayed payments put on contractors, government institutions still require these contractors to fulfil their statutory obligations like tax payment. It is our proposal that government will as a matter of policy rather accept its own payment certificate to defray or offset contractors' statutory obligations. This would effectively put under

control the numerous constraints contractors are exposed to due to delayed payments.

5. Establishment of Construction Industry Development Authority.

Apart from these proposals, we also encourage the Government to consider calls for the establishment of the proposed Construction Industry Development Authority as a strategic move that would strengthen the performance and contribution of the construction industry to national development.

Signed: Rockson Dogbegah
AGI Construction Sector Chair

