



ROADS INDUSTRY COUNCIL

*Representing Uganda's Road Sector*

RIC Issues sheet 4: **September 2014**

# Why change is needed: The challenges facing Uganda's roads industry

## Summary

Uganda's Government is working to improve the country's road network using both private contractors and 'force account' (its own staff and equipment). In the short term, strong reliance is being placed on force account by the Government simply because of the amount of work that needs to be done as quickly as possible (see 'RIC Issues sheet 3' for more on this). However, it must be recognised that over-reliance on force account undermines the development of a strong and competitive private sector.

There are also a variety of issues associated with the composition of the private sector that need to be addressed if Uganda's road network is to grow and be well maintained. The first step, therefore, is to understand and accept the challenges that the sector as a whole faces. This issues sheet explores some of the key challenges facing Uganda's road sector. Best-bet options for addressing these issues are then considered in 'Issues sheet 5'.

## The problems associated with small-scale contractors

### The inefficiency of small contractors

Uganda has an abundance of small companies providing road contracting services. However, small-scale contractors tend to be unable to capture enough steady work to train and retain good quality staff or put in place a high standard of quality control and business management systems.

One consequence of this is a vicious cycle in which a small-scale contractor wins work, hires staff to complete that work, loses them once the job is done, and then has to hire new, inexperienced personnel for the next job. This means that the staff used by these companies often never gain the skills necessary to operate equipment properly, which results in poor quality workmanship and slow contract delivery.

There is little to gain from a road sector built on many small contractors operating inefficiently in this way. To increase the quality and size of the country's road network, Uganda needs to create a pool of technically competent and





professional medium-sized businesses able to steadily capture work, retain skilled staff, and deliver on time to the required standard.

#### **The myth that small contractors create a lot of jobs**

Another argument put forward to support the maintenance of a large pool of small-scale contractors is that it provides significant employment opportunities that greatly benefit the country. This is a myth.

One key point to remember is that producing a few more medium-sized contractors would create as many jobs as retaining many less efficient small-scale contractors.

And, the number of jobs that small-scale contractors create in the road sector is insignificant compared with the number of jobs that would be created across a range of priority sectors by reorganising the roads industry to build and maintain an efficient and extensive road network. Benefits would include boosts to sectors such as mining (including oil), tourism and agriculture. Improved roads would also improve access to markets and services for large numbers of households, especially in rural areas.

#### **The problems associated with force account**

##### **The myth that force account is cheaper**

One argument often put forward for using government labour and equipment is that this option is cheaper than contracting the private sector. This is another myth that arises from the way that the Government calculates the costs of force account.

When private contractors bid for a job their costings have to take into account issues such as staff salaries, the buying and maintaining of vehicles, and the depreciation

of equipment. The same costs apply to government force account. However, when they price a job, these key costs are counted as government overheads and are not factored in.

What this means is that there is little difference between the basic costs to tax payers of using private contractors and force account – the costs of the private sector are simply more transparent.

Related to this is the fact that, unlike private contractors, force account is not controlled by the economic rules that govern market competition. Private contractors have to keep their prices competitive in order to win work and stay in business. Force account does not have to win work in this way, which means that there are no market incentives to keep costs to a minimum and drive up quality.

##### **The myth that force account provides better quality work**

It is sometimes argued that the work done by force account is of a better quality than that done by the private sector. Again, this is a myth. Partly this is because force account undertakes its own quality control, which results in the assessment of work being biased. In fact, force account work is often sub-standard, suffering from the same problems that affect the private sector.

#### **The way forward**

##### **Acknowledging the problems and realising a vision**

Looking dispassionately at the issues that surround both force account and small-scale private contractors, it quickly becomes obvious that Uganda's interests are best served by a competitive road sector that lays much less emphasis on the use of either small-scale contractors or force account.

##### **Roads Industry Development Strategy**

To realise the vision of an efficient, sustainable roads industry, policy makers will need to develop a feasible Industry Development Strategy. Such a strategy would take the Road Sector Development Programme 3 (which is currently being finalised) as its starting point and would outline practical steps, and specify milestones and targets.

Getting the right balance between force account and the private sector will be at the heart of the strategy, which will determine the 'shape and size' of the private sector in the Ugandan roads industry. This issue is dealt with in more depth in 'Issues sheet 5'.