ROADS INDUSTRY COUNCIL

Representing Uganda's Road Sector

RIC Issues sheet 5: October 2014

The way forward:
A Roads Industry Development Strategy

Summary

This issues sheet focuses on the steps needed to create the efficient, private-sector driven roads industry that Uganda requires for future economic development. This will require a clear vision for the future structure of Uganda's road sector and a Roads Industry Development Strategy to make that vision a reality.

The current state of Uganda's roads industry

It is estimated that there are around 800 road contractors operating in Uganda at the moment.[1] These fall into three groups: (1) many small-scale contractors working on lots of small-scale, low-value contracts with limited capital, few employees, and little or no plant and equipment, (2) a few medium-sized contractors able to undertake larger, higher value contracts, and (3) a very small number of large contractors.

The myth that the road sector will grow naturally

Small-scale contractors

It is commonly assumed that the road sector will evolve over time, as large numbers of small-scale new entrants compete for minor works, and gradually expand their resources and competence to become medium-sized contractors.

In reality, few small-scale contractors will grow to be medium-sized contractors. This is partly because they lack capital and expertise and are vulnerable to changing market situations, and partly because of the Government's reliance on force account for maintenance works.

Because of these factors, large numbers of small-scale contractors go out of business each year while others spring up to replace them. This creates a vicious cycle that maintains a large pool of poorly skilled contractors who do not evolve or grow to improve the sector.

Medium-sized contractors

Similar stagnation is seen among the medium-sized contractors, who need a substantial and predictable flow of work to allow them to invest in plant and build workforce competence.

An important step in changing this is the introduction by the Uganda National Roads Authority (UNRA) of 'term contracts', which make a specific contractor responsible for all maintenance work in an area for a fixed period. However, this only applies to national roads at present.

[1] Based on CrossRoad's 2012 survey of contractors and consultants

Mixed policy messages

The National Construction Industry Policy clearly indicates Uganda's intention to develop the private construction sector, including the roads industry. However, the Government's strong support of force account contradicts this policy (see Box 1).

Because the Government has not stated how or when its use of force account will be reduced, it is sending a mixed message to the private sector. This is mainly because the Government does not have a defined vision or strategy for the growth of the road sector.

Box 1: The impacts of force account

Approximately 40% of the roads maintenance budget is now flowing through force account operations.[2] This means that the total volume of work which is available to contractors has decreased considerably. While a small number of medium-sized businesses will benefit from UNRA's introduction of 'term contracts', the vast majority face fewer opportunities to win work, survive and grow.

A vision for the roads industry

Ultimately, the Ministry of Works and Transport (MoWT) needs to make a decision about the appropriate size and shape of the roads industry. And, logically, that vision should favour efficient medium-sized businesses (see 'Issues sheet 4' for more on this thinking).

But how does MoWT create that vision?

1. **By setting a schedule** – MoWT should set an agreed schedule for producing a vision for the sector.

2. **By convening stakeholders** – MoWT should convene an appropriate group of stakeholders to explore the opportunities and constraints surrounding the future development of the roads industry. This group should include industry experts, representatives of contracting agencies, private sector contractors and road sector professional bodies.

3. **By modelling the shape and size of an efficient future road sector** – MoWT needs to agree sector goals and analyse the shape and size of the sector needed to meet them in the future. This should be done under the direction of the convened stakeholder group.

4. **By producing a vision proposal** – finally MoWT should prepare a vision proposal to guide the production of a Roads Industry Development Strategy.

Towards a Roads Industry Development Strategy

Once the Government has decided what 'size and shape' the private sector should be, it will be possible to determine a Roads Industry Development Strategy for Uganda.

This is a task for the Uganda Construction Industry Commission (UCICO) when it is inaugurated. MoWT should therefore take advantage of the delay in the setting up of UCICO to produce its road sector vision now, as producing the Roads Industry Development Strategy should be one of UCICO's first tasks.

Uganda's Roads Industry Development Strategy

Uganda's Roads Industry Development Strategy should set out:

- **A statement of the appropriate balance between force account and private contracting** – with a focus on meeting the National Development Plan's goals.

- **A statement on the types of contracting which should be favoured** – contracting that will build stability and encourage growth among the targeted types of contractors.

- **An action plan to re-balance force account and the most suitable private contracting model.** This should be realistic and time-bound and should take account of:

  - private sector capacity to expand to meet the demand for maintenance works
  - necessary changes in government administrative arrangements and their capacity to manage maintenance
  - measures to ensure that the shift towards the private sector increases the quantity and quality of maintenance work carried out.

[2] Based on 25% of the UNRA total UGX 210 billion budget for maintenance, added to the UGX 90 billion DUCAR budget for maintenance divided by the UGX 350 billion total maintenance budget.

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