Inception Report – Volume 2

Creating Opportunities for Sustainable Spending on Roads in Uganda

CrossRoads Secretariat

June 2011

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Volume 2

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Abbreviations

AfDB	African Development Bank
BTVET	Business, Technical, Vocational Educational and Training
CD	Capacity Development
CEO	Chief Executive Office
CGF	Construction Guarantee Fund
DFID	Department for International Development (Uganda)
DP	Development Partners
DIT	Directorate of Industry Training
DUCAR	District, Urban & Community Access Roads
EAC	East African Community
ERB	Engineers Registration Board
EU	European Union
FAQs	Frequently Asked Questions
FY	Financial Year
HRO	Human Resource Development
HRM	Human Resource Management
IOV	Inspectorate of Vehicles (Police)
GoU	Government of Uganda
MDA	Ministry, Departments and Agencies
MELTC	Mount Elgon Labour Based Training Centre
M&E	Monitoring & Evaluation
MFC	Micro-Finance Support Centre
MoFPED	Ministry of Finance, Planning & Economic Development
MoWT	Ministry of Works & Transport
MSME	Micro-Small and Medium Enterprise
NCI / NCIP	National Construction Industry Policy

NRSA	National Road Safety Agency
PPDA	Public Procurement and Disposals Act (and Authority)
PPP	Public- Private Partnership
PR	Public Relations
RFB	Road Fund Board
RIC	Roads Industry Council
TA	Technical Assistance
ToR	Terms of Reference
TSDP	Transport Sector Development Project
UACE	Uganda Association of Consulting Engineers
UGAPRIVI	Uganda Association of Private Vocational Institutions
UCICO	Uganda Construction Industry Council
UGX	Uganda Shillings
UIPE	Uganda Institution of Professional Engineers
UIPP	Uganda Institute of Physical Planners
UNABCEC	Uganda National Association of Building & Civil Engineering Contractors
UNRA	Uganda National Roads Authority
URA	Uganda Revenue Authority
URF	Uganda Road Fund
UVQR	Uganda Vocational Training Framework
WB	World Bank

APPENDIX B

COMMUNICATIONS AND VISIBILITY STRATEGY REPORT

Communication and Visibility Strategy Report

Creating Opportunities for Sustainable Spending on Roads in Uganda

Communications and Public Relations Specialist

June 2011

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Introduction to Cross Roads

Uganda has one of the highest costs of transport and road construction on the continent. The policy environment has to mature, even though the establishment of public institutions like UNRA and URF indicate progress unfolding. Yet, institutional rules and procedures lack transparency, accountability and speed, and rather increase the costs and risk of building roads. Demand for professionalisation and increase of competition in the local road construction sector is high.

Consequently, the Cabinet of Uganda approved the Policy for Development and Strengthening the National Construction Industry (NCI) in January 2010. The Policy aims to create an effective institutional framework to address the current weaknesses in the construction industry.

It is within this framework, the Project 'Creating Opportunities for Sustainable Spending on Roads' - Cross Roads will be implemented.

CrossRoads is a four year project with a budget of GBP 17.95 million (GBP 15.2 million from DFID, GBP 3 million from EC). The programme is co-funded by EU and World Bank.[1]

Under CrossRoads, a Roads Industry Council (RIC) will be created. A Secretariat (WSP and Practical Action) will manage RIC's day-to-day business. Based on an iterative co-operation process with the relevant sector stakeholders the Development Partners will propose the assignment of the RIC members.[2]

Overall goal of CrossRoads is to improve the quality of the road network.

Purpose of CrossRoads is to improve the effectiveness of GoU expenditure on roads.

The project is built upon two outputs. Their rationales will guide all project communication.

Output 1: Public institutions better able to manage the road network, through better planning, regulation and promotion of road safety.

Output 1 addresses the demand side of the road sector, namely MoWT, UNRA, URF, etc.

The component contributes to the institutional capacity building of TSDP (Transport Sector Development Programme)[3] of World Bank. World Bank is generally

[1] EU co-funding is based on EU Support to the Uganda Road Construction Industry, co-funding of the World Bank on the Transport Sector Development Programme.
[2] Similarly, the NCI Policy earmarks to establish a Uganda Construction Industry Commission (UCICO). UCICO is to facilitate the development of the entire construction industry. RIC however exclusively focuses on the road construction sector, and will be established in June 2011. RIC can therefore become the first mover, allowing UCICO to profit from the lessons learned and from the project set-up established. The integration of RIC into UCICO may become an option at a later stage.
[3] TSDP assists MoWT in establishing semi-autonomous authorities to enhance service delivery. Authorities to be supported will be National Road Safety Agency, Multi-Sectoral Transport Regulatory

responsible and accountable for this contribution, apart from direct interventions of CrossRoads.

Moreover, the component aims at capacity building and organisational strengthening at UNRA and other public institutions such as PPDA. Activities are centred on planning, procurement, materials and supervision.

Intervention rationale: Transparency in procurement, better validation of track records and enterprise capabilities will pave the way for more feasible and sustainable road construction works. The acceleration of tender award processes minimises perceptions and opportunities for corruption. Innovative contracting as for example the combined procurement of road design and construction allows for reducing the risks of road construction. Other contracting methods allow for reducing both, construction costs and risk, and will be assessed. Innovative incentives, for example a partial tax exemption for suppliers, could allow and motivate smaller players to enter the market. Research on and development of innovative technologies, mostly in surfacing, can also contribute to cost reductions. Examples are the recycling of old pavement, the effective use of lime (stabilisation) or waste materials to bring down maintenance costs.

Under the project, public bodies with respective projects at hand will be invited to apply to the Secretariat for financial and technical assistance. The Secretariat will need to work actively with public institutions and RIC to support the generation of strong proposals. The Secretariat will carry out due diligence and send the request to RIC for approval. The public bodies will need to report on progress on outputs to the Secretariat which will monitor outcomes.

Institution building, capacity building and organisational strengthening can be capitalised on for promoting a positive image of MoWT, UNRA and other participating public bodies in the road construction industry and the general public. Best practices can be published and, ideally, the implementing institutions become role models and change agents within the road sector.

Output 2: Increased capability and competition in the road construction sector and improved access by construction companies to complementary markets including finance and equipment hire.

To achieve the output, the project aims to strengthen the private road sector industry by interlinking the sector with the Finance System and facilitating access to finance, credit and leasing. Access to finance, credit and leasing could become a propelling force for further road sector development.

Agency and District Urban and Community Access Roads Agency. MoWT Policy and Planning Division will be strengthened and TA be provided to UNRA. The construction of regional UNRA offices and renovation of its station offices are included. MoWT is currently developing a Transport Sector Data Management System (TSDMS) that is earmarked to encompass all sector agencies and to be linked to URA and Ugandan Bureau of Statistics. The data base will include crash data, to inform road safety measures. It will be important for Cross Roads to interlink to this approach.

One of the main stakes is to pilot a construction guarantee fund, in co-operation with the Ugandan Banking Sector. The general features of the guarantee fund are outlined in the NCI Policy. The policy designates the fund for assisting contractors and consultants in obtaining bid securities, performance bonds and advance payment guarantees. NCI determines that the Fund shall also support sector training centres and institutions. The policy demands for obligatory contributions of contractors and consultants to the Fund when performing contracts for public works.

Potential other activities under the component comprise of

- Cooperating with and training of banks in financial appraisals of construction companies,
- Providing assistance to Banks who are ready to or prepare to enter the leasing business,
- Assistance to equipment suppliers and hire companies in developing feasible business models for the cooperation with smaller firms.

Risk sharing grants (+/-1 million GBP) will be provided for innovative projects, and include training and support for successful bidders. Another share of the budget (2 million GBP) under component 2 is earmarked to be used as partial loan guarantees.

Business Development Service Providers and professional bodies shall be motivated to strengthen their services towards the needs and demands of micro, small and medium sized firms. This will allow increasing their service outreach, membership base, and financial sustainability. The component addresses the kernel of road sector development – provision and accessibility of professional skills and standards – and finally aims to strengthen the quality of road works, sector competition and competitiveness.

- Service providers will be motivated to come up with new business models and be supported with one-off grants ("challenge fund").
- A match making service will help to foster alliances between national and international firms.
- A training scheme, including curriculum, ToT and a qualification system will be piloted. The training scheme aims to provide work related skills at all levels from engineers and construction managers to artisans. Soft skills as contract law, business management and communication should be integrated into the curriculum. The scheme is earmarked to be financed on a tripartite base by employers, employees and CrossRoads. A Construction Levy as outlined in the NCI could later provide for scaling up the scheme. Universities and technical colleges such as Makarere, Nkozi and Kyambogo Universities, Uganda Technical Colleges or the Public Works Training Centre Kyambogo, etc., can provide the trainings/education.

1 Why communicate?

Cross Roads aims to bring together the demand and supply side of the road construction sector, and to motivate cooperation of the stakeholders. Overall goal is to strive towards more sector efficiency and efficacy. A strategic communication approach will make the projects way into the sector and allow for addressing and mobilising the stakeholders. The communication and visibility strategy provides the guidance necessary, and needs to be followed up during project implementation. The strategy aims to:

- Create understanding of the road sector, its public and private players in the public and the need for reform.
- Create awareness and understanding of CrossRoads project approach.
- Vitalize the dialogue between important road sector stakeholders from demand and supply side to identify problems, constraints and solutions.
- Facilitate interaction (in person and virtually) to foster mutual understanding and cooperation between stakeholders.
- Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads.
- Inform advocacy endeavours to strengthen the rightful demand for accountability, transparency and efficiency in the use of public funds.

Key messages are presented in Chapter 6.1.

2 Target Audiences

Six target audiences have been identified that are proposed to be addressed by the communication strategy:

- **General Public and Civil Society**
- **Professional Public**:
  - Road construction industry (private/public): Contractors and Consultants; Business Development Organisations as Uganda National Association of Building and Civil Engineering Contractors (UNABCEC), Uganda Association of Consulting Engineers (UACE); professional bodies for example Uganda Institution of Professional Engineers (UIPE), Uganda Institute of Physical Planners (UIPP); Registration bodies as the Engineers Registration Board (ERB), etc.
  - Universities and Technical Colleges: Uganda Technical Colleges; Public Works Training Centre, Kyambogo; Mt. Elgon Labour-Based Training Centre, Mbale; Uganda Management Institute; and Management Training and Advisory Centre, etc.
  - Other road sector related organisations as road user associations, local businesses and suppliers, laboratories, IT-firms, emergency service providers (for road accidents), and civil society organisations as NGOs for Road Safety, etc.
- **Media**
- **MoWT, public institutions as UNRA, URF, PPDA, etc.**
- **Representatives of the Government of Uganda / MPs**

- **Development Partners**

3 Strategic Communication Approach

Public information, advocacy and mobilisation are the strategies proposed to be underlying the communication and visibility approach.

- **Public information** to provide sound information on the road sector, its players, status and reform needs. Aim is to allow for informed civic pressure and demand for access to markets via roads, for road safety, transparency and accountability, and roads service value for money.

- **Advocacy** to gain commitment and ownership of public and private key players for the road sector reform, and to organize and build alliances across the stakeholders.

- To **create awareness** in the technical public (supply side) on service standards and quality.

- To **mobilise** private / public sector and civil society, to contribute to the sector reform and to allow for proliferating change with innovative projects and best practices.

The strategy rests on good media relations to be reached by

- Establishing media contacts (radio, print press, TV).
- Being proactive by having ready-made information at hand.
- Continuously preparing timely information on events and developments, including Best Practices and Project Success Stories.

4 Communication Instruments

A mix of communication instruments (triangulation) will allow for a measurable impact of the communication strategy. The following instruments are feasible for the project:

1. Fostering interaction:

- Background briefings for media / representatives of target groups
- Meetings with Government officials
- Workshops and fora
- Launches
- Participation of Cross Roads in Sector Working Group etc.

2. Basic communication kit:

- Logo, Business Cards, Letterheads
- Brochure / Flyer

- FAQs
- Fact sheets
- Website
- Newsletters
- Posters
- Give-aways

3. Outreach for specific messages:
- Mailing (post and e-mail)
- Mobile technology (SMS)
- Press releases
- Radio spots and interviews
- TV spots

4. Intensifying outreach:
- Newspaper Articles
- Newspaper Q&A interviews
- Op-ed articles
- Newspaper Supplements
- Press conferences
- Newspaper supplements

1. Fostering Interaction: Ownership and commitment require providing spaces for interaction where players exchange and gather knowledge, and form alliances for change. In the project inception phase, interaction is mainly taking place in background briefings of team members with stakeholders and GoU. Subsequently to the inception phase, workshops / fora and launch events will ad further interaction space and play a vital role in project implementation.

2. The basic communication kit consists of logo, business cards, letterheads, brochure / flyer, poster, give-aways, FAQs, fact sheets, newsletters and website, and is required to present the project endeavour properly to the public or at any upcoming occasion (press requests, missions, donor visits, etc.). Draft layouts for above are provided by the consultant.

Project branding requires a project logo, to be displayed on all communication products, brochure, poster and a selection of give-aways. The project motto is embedded in the Project Name: “Creating opportunities for sustainable spending on Roads”, and should appear on all print outs and presentations of the project. The production of a small amount of merchandising products as pencils, caps, t-shirts, cups or “Diaries 2012” is recommendable to further brand the project. Project team will decide upon the budget to be allocated for such give-aways, and the quality to be aimed for. Further visibility criteria of the funding partners have to be assessed and responded to accordingly. Logo draft and the correct mentioning of the project partners (MoWT, DFiD and EU) need to be approved by the partners.

FAQs, Fact sheets and Newsletters are to contain hard facts and figures, and represent efficient means to respond to stakeholders and partners information demand. Presumption is an excellent design and high quality information. Newsletters only generate added value if they present news. The publication frequency has to be decided upon accordingly.

As internet is a communication tool of growing importance and accessibility in Uganda, an appropriate design of the website is vital. Main task will be to design an easy to upload, one-stop-information-hub which is continuously updated. Yet many websites of the Ugandan public and private sector tend to overload their websites with animations and heavy weighing photos or graphs, which aggravate uploading, while disregarding a logic and easy to browse structure which invites to explore the content in-depth. The website shall offer an interactive forum to allow for an online stakeholder dialogue.

CrossRoads earmarks to design a data base on road sector consultants and contractors. Objective is to allow for faster screening and assessment of capabilities and therewith to facilitate the procurement processes for road works. Linked to the project website and made accessible to registered user groups, the data base can become a secondary (one-way) communication channel. As mentioned above, the Cross Roads data base approach should take into account the design of the Transport Sector Data Management System (TSDMS) of MoWT, to avoid parallel structures and to allow for a prospective integration at a later stage.

3. Outreach for specific messages: For the announcement of special events for example workshops/fora, ToTs, or the establishment of the CGF ready to use, etc., CrossRoads is advised to make use not only of mailings (post/e-mail), but to also make extensive use of mobile technology. Mobile technology is cost and time efficient, and proved to be an excellent tool to reach specific stakeholders in Uganda. Furthermore, it is recommendable to employ a person with the task to follow up important invitations by phone, to make sure they are well received, confirmed and remembered.

Milestones reached by the project would always be worthwhile a press release.

The use of radio and TV is for CrossRoads recommendable to create a broad awareness and participation, for example on/in the challenge fund or CGF.

4. Intensifying outreach: Articles are likewise feasible to create awareness on key issues. Qualified articles either require the cooperation of a journalist, or the team members to provide their input, which will then be edited and marketed by the supporting firm. The publication of a moderate number of articles per year is recommendable to CrossRoads.

5 Communication Grid

5.1 Key Messages

Target Audience	Key Messages
General Public / Civil Society	• Private sector and private/public institutions are important drivers for the development of the road sector. A healthy road sector boosts the economy. • CrossRoads is a joint transport sector project of DFID/EU/WB and GoU/MoWT. Goal is to improve the Ugandan road network, and to improve the GOU expenditure on roads. • Value for money road construction services, skilled human resources, access to finance, credits, leasing, hiring, accountability / transparency of public administration and the reliability of public demand are presumptions for a healthy road sector. • Communities and their children should demand for Road Safety to protect their life and health. • Public should follow up service delivery and performance of the road sector and have its say to request for added value and tailor made services. • Likewise, communities should actively seek opportunities for participation in the road sector, be it through small businesses or labour (for example maintenance).
Professional public (Contractors, Consultants, associations…) Media	• GoU and DP recognise the role of private sector and private-public institutions as driving force for road sector development, and subsequently the economy. • Cross Roads is a joint transport sector project of DFID and EU, and GoU. Goal is to improve the Ugandan road network, and to improve the GOU expenditure on roads. • Value for money road construction services, skilled human resources, access to finance and credits (CGF), leasing and hiring (hiring plant), accountability / transparency of public administration and reliability of public demand are presumptions for a healthy road sector. • A proactive orientation towards service quality and standards, and the clients / members demand is key for taking a favourable position in the road sector, increases profit margins and contributes to economic development. • Business Development and Match Making Services as well as training schemes will be facilitated under Cross Roads to strengthen the target group.

	• The target groups should advocate towards conducive laws, regulations and policies for road sector development. • Innovative road sector projects and Best Practices are provided a unique funding opportunity under Cross Roads. • The road sector should become inclusive, with efficient players of different size and sufficient competition for realistic prices and solid services.
MoWT, public institutions as UNRA, URF, PPDA, etc.	• CrossRoads is a joint transport sector project of DFID/EU/WB and GoU. Goal is to improve the Ugandan road network, and to improve the GOU expenditure on roads. • CrossRoads supports the NCI Policy and the implementation of NDP (PEAP), Public Sector Reform, Privatisation and Road Sector Development Programme. • CrossRoads provides members of the private and public sector with a unique funding opportunity for innovative road sector projects. • Value for money road construction services, skilled human resources, access to finance, credits and leasing, accountability / transparency of public administration and the reliability of public demand are presumptions for a healthy road sector. • Getting involved, becoming proactive in view of enabling laws, regulations an policies, service quality and standards, transparency, accountability and professionalism is in the interest of public institutions. In this way they become change agents and contribute to long-term economic development of the country.
Representatives of the Government of Uganda / MPs	• CrossRoads is a joint transport sector project of DFID/EU/WB and GoU. Goal is to improve the Ugandan road network, and to improve the GOU expenditure on roads. • CrossRoads supports the NCI Policy and implementation of NDP (PEAP), Public Sector Reform, Privatisation and Road Sector Development Programme. • Enabling laws, regulations and policies play a vital role in the sustainable development of the road sector and require the support of government. • In line with the overall GoU policy, CrossRoads strengthens public institutions and provides members of the private/public road sector with a unique funding opportunity for innovative road projects. • The government has an important stake in mobilising

	for the improvement of road sector performance and competition, to foster the countries sustainable economic growth.
Development Partners	• CrossRoads and correlated DP projects/programmes should coordinate activities and should address key issues with one voice. • DP position towards NCI, and thereof evolving entities as UCICO should be jointly developed and communicated. • DP should systematically exchange information and knowledge in continuous meetings.

5.2 Channels and Target Audience

Communication Channel / Tool	Target audience					Aim	Responsibility (tbd)
	General Public / Civil Society (CS)	**Professional Public**	**Ministry, Public Institutions, Media**	**Representa-tives GoU / MPs**	**Development Partners**		
Workshops / Fora		X	X		X	Exchange and generation of knowledge, advocacy, tackling strategic approaches of projects, relationship building	
Launches (CGF, Challenge Fund)	X (CS)	X	X	X	X	Informing and taking aboard stakeholders	
Background briefings for media / representatives of target groups	X (CS)	X	X			Relationship building and providing in-depth information	
Meetings with Government officials				X		Relationship building, providing in-depth information	
Participation of Cross Roads in Sector Working Group, and similar, etc.	X (CS)	X	X	X	X	Relationship building, exchange of in-depth information	
Logo, letterhead business cards	X (CS)	X	X	X	X	To introduce the project in a professional way	
Brochure / Flyer	X	X	X	X	X	Provide General Information on Cross Roads	
FAQs	X	X	X			Answer frequently asked question about Cross Roads and the Road Sector	

Fact sheets	X	X	X			Facts and figures on the road sector and the project	
Website	X	X	X	X	X	Provide project and sector information, documentation, news, downloads (= information hub)	
Newsletters	X	X	X	X	X	Providing short information on the progress of the project and relevant sector news	
Posters	X	X	X			Allow for visibility of the project and mobilisation of target groups and stakeholders	
Mailing / e-mail	X (CS)	X	X			Mobilisation / invitation for events as workshops, trainings, launches	
Mobile technology (SMS)	X (CS)	X	X			Mobilisation / invitation for events as workshops, trainings, launches	
Radio spots and interviews	X	X				Short messages allow for visibility of the project and mobilisation of target groups and stakeholders; interviews provide specific information on the project progress and highlights of the road sector	
TV spots	X	X				Short messages allow for visibility of the project and mobilisation of target groups and stakeholders	
Press releases			X			Inform on news of the project or important upcoming events	
Newspaper Articles	X	X	X	X	X	Provide information on new developments in the sector, from the project	
Newspaper Q&A interviews	X	X	X	X	X	Provide specific information and positions	
Op-ed articles	X	X	X	X	X	Provide specific information and positions	
Newspaper supplements	X	X	X	X	X	Provide detailed articles on project context	
Press conferences or combination of launch with press invitees			X			Communicate major developments to the press	

6 Work Plan and Budgets (referring to entire project duration)

It is recommended to accompany the launch of RIC in June 2011 with consolidated communication activities, and then to come up with the next offensive as soon as a project milestone is matched (for example: CGF or Challenge Fund ready for implementation), to announce important events (workshops, etc.), or comment external events (passing of policies could for example motivate an op-ed article).

See detailed Workplan in Annex 1.

7 Implementation

Besides strengthening the demand side (at MoWT and UNRA, etc.), the project aims to facilitate the service provision of the supply side (associations, contractors, consultants, banks, plant hire, etc.). For both components, ownership and commitment of the stakeholders have to be gained.

CrossRoads will choose a PR-Marketing firm to implement the agreed upon communication and visibility plan. A long list is provided under this consultancy. The website will be designed and hosted by a WSP IT expert. Logo, letterhead and business cards are designed under this consultancy, and are ready for production after approval.

8 Monitoring and Evaluation (referring to entire project duration)

It is recommendable to have a communication audit annually. Aim is to gain a systematic overview of the state of implementation of communication measures, their impact and cost-efficiency.

Activity	Output Indicator	Outcome	Outcome Indicator
Further stakeholder analysis, discussion of content and scope with project team, finalisation of communication and visibility plan	Completion of communication and visibility plan	Streamlined and consistent presentation of Cross Roads to the target groups and public	Communication audit
Compilation of short list for PR firms for implementation + prep of ToR	List of tentative participants and ToR compiled	Tender process is prepared for implementation by CrossRoads	PR contract awarded
Holding workshops, fora and trainings with stakeholders	– List of vital participants, agenda, location and catering defined – Event announced in media (mailings, SMS, press, radio/TV)	– Vitalize the dialogue between important stakeholders from demand and supply side to identify and realize improvements in the road sector. – Motivate broad and qualified participation in innovative change projects facilitated by Cross Roads.	• Workshops taking place under participation of vital stakeholders • Media coverage
Launches of RIC, CGF, or other funding opportunities relevant for staekeholders, and media	– List of vital participants, agenda, location and catering defined – Event announced in media (mailings, SMS, press, radio/TV)	– Vitalize the dialogue between important stakeholders from demand and supply side to identify and realize improvements in the road sector. – Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads.	• Launch taking place under participation of vital stakeholders and media • Media coverage
Background Briefing Media / target groups	Briefings held (continuous)	– Create understanding of the road sector, its public and private players in the public and the need for reform. – Create awareness and understanding of CrossRoads project approach.	• Informant Interviews • Stakeholder Analysis (random checks)

Activity	Output Indicator	Outcome	Outcome Indicator
Meeting with government officials	Briefings held (continuous)	– Create awareness and understanding of CrossRoads project approach. – Inform advocacy endeavours to strengthen the rightful demand for accountability, transparency and efficiency in the use of public funds.	• Informant Interviews • Stakeholder Analysis (random checks)
Participation in the Sector Working Group	Participation documented.	– Create awareness and understanding of CrossRoads project approach. – Motivate broad and qualified participation in innovative change projects facilitated by Cross Roads	• Informant Interviews • Stakeholder Analysis (random checks)
Logo/Letterhead/Business cards	Produced, communicated and availed to all project staff	– Create awareness and understanding of CrossRoads project approach.	• Spot check
Brochure/ Flyer	Brochure/Flyer produced and ready for dissemination and display on website.	– Create understanding of the road sector, its public and private players in the public and the need for reform. – Create awareness and understanding of CrossRoads project approach.	• Informant Interviews • Stakeholder Analysis (random checks)
FAQs	FAQs ready for print and hand out by the project (word-pdf doc)	– Create awareness and understanding of CrossRoads project approach.	• Informant Interviews • Stakeholder Analysis (random checks)
Website	Website established and fully functional	– Create understanding of the road sector, its public and private players in the public and the need for reform. – Create awareness and understanding of CrossRoads project approach. – Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads. – Inform advocacy endeavours to strengthen the rightful demand for accountability, transparency and efficiency in the use of public funds.	• Clicks • Direct Feedback • Informant Interviews • Stakeholder Analysis

Activity	Output Indicator	Outcome	Outcome Indicator
Newsletters	Newsletters are designed and disseminated biannually	– Create awareness and understanding of CrossRoads project approach.	• Direct Feedback • Informant Interviews • Stakeholder Analysis (random checks)
Posters	[No tbd] Posters produced and ready for dissemination and display on website	– Create awareness and understanding of CrossRoads project approach. – Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads.	• Informant Interviews • Stakeholder Analysis (random checks)
Mailings (conventional letters and email)	Each major event is announced properly, and invitation are followed up	– Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads.	• Spot check
Mobile technology (SMS)	Each major event is announced properly, and invitation are followed up	– Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads.	• Spot check
Radio Spots and Interviews	[No tbd] Spot messages and interviews ready for roll out	– Create awareness and understanding of CrossRoads project approach. – Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads.	• Direct feedback/participation in broadcast (opinion poll, or session the “audience asks”) • Informant Interviews • Stakeholder Analysis (random checks)
TV spots	[No tbd] Spot messages ready for roll out	– Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads.	• Informant Interviews • Stakeholder Analysis (random checks)

Activity	Output Indicator	Outcome	Outcome Indicator
Press releases	Minimum of 2 press releases submitted annually	– Create awareness and understanding of CrossRoads project approach. – Vitalize the dialogue between important stakeholders from demand and supply side to identify and realize improvements in the road sector. – Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads. – Inform advocacy endeavours to strengthen the rightful demand for accountability, transparency and efficiency in the use of public funds.	• Reactions in the paper (articles published) • Informant Interviews • Stakeholder Analysis (random checks)
Newspaper Articles	Minimum of 2 Articles published annually	– Create understanding of the road sector, its public and private players in the public and the need for reform. – Create awareness and understanding of CrossRoads project approach. – Inform advocacy endeavours to strengthen the rightful demand for accountability, transparency and efficiency in the use of public funds.	• Reactions in the paper (comments, etc.) • Informant Interviews • Stakeholder Analysis (random checks)
Op-ed Articles / Q&A Articles / Newspaper Supplements	3 articles or supplements ready for submission to press (on the “first project year” and two times “mid term reflections”)	– Inform advocacy endeavours to strengthen the rightful demand for accountability, transparency and efficiency in the use of public funds. – Create awareness and understanding of CrossRoads project approach. – Motivate broad and qualified participation in innovative change projects facilitated by CrossRoads.	• Reactions in the paper (comments, etc.) • Informant Interviews • Stakeholder Analysis (random checks)
Press conferences / Invitation of journalists to project launches	Conference organized to announce important project news, or journalists invited for project launches	– Create awareness and understanding of CrossRoads project approach. – Inform advocacy endeavours to strengthen the rightful demand for accountability, transparency and efficiency in the use of public funds.	• Subsequent media reactions • Informant Interviews • Stakeholder Analysis (random checks)

9 Risk Identification and *Mitigation*

- The set-up of UCICO could create confusion throughout the stakeholders about the roles of RIC and UCICO (medium - high). *Carefully chosen messages and transparent coordination with the counterparts should allow to clarify the role of the two organs and to communicate properly to stakeholders and public.*

- Lack of buy in of relevant public stakeholders (MoWT, UNRA) in to the communication plan (low-medium). *The project and its communication plan support the implementation of Government policies (NCI). This should be communicated to the public stakeholders, and be coupled with a request for minimum support (information).*

- Media fail to report properly due to lack of human and financial resources (medium-high). *The triangulation of various communication channels and instruments should allow addressing relevant stakeholders and the public with adequate messages.*

- Low appetite for reform and corruption in the public sector undermines policy and institutional reform (medium). *The communication and visibility plan will support the projects endeavour to build a constituency that supports the sector reform.*
- Support to private businesses and institutions are captured by narrow elite (low). *Open and transparent application processes, eligibility criteria and finally supervision of the projects funded will be put into place and be communicated accordingly.*

Annex 1: Tentative Workplan

Activity	2011			2012				2013				2014				2015			
	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter	1. Quarter	2. Quarter	3. Quarter	4. Quarter
Workshops / Fora	X																		
Launches (CGF, Challenge Fund, Presentation of Best Practices, ...)		X	X																
Background briefings for media / representatives of target groups	X																		
Meetings with Government officials		X				X				X				X				X	
Participation of Cross Roads in Sector Working Group, and similar, etc.	X																		
Logo, letterhead business cards	X																		
Brochure / Flyer	X																		
FAQs	X			U				U				U				U			
Fact sheets	X			U				U				U				U			
Website		X		U		U		U		U		U		U		U		U	
Newsletters		X		X		X		X		X		X		X		X		X	
Posters	X	x																	
Mailing / e-mail	X																		
Mobile technology (SMS)	X																		
Radio spots and interviews		X	X	X	X														
TV spots		X	X																
Press releases		X	X		X		X		X		X		X		X		X		X
Newspaper Articles		X	X		X		X		X		X		X		X		X		X
Newspaper Q&A interviews / Op-ed Article / Newspaper Supplememt						X				X				X					
Press conferences or combination of launches with press invitees		X	X																

X activity takes place
U update due
Green stripes intermittent activity (accompanying milestones of project implementation, exact dates tbd)

APPENDIX C

FINANCE REPORT

Finance Report

Creating Opportunities for Sustainable Spending on Roads in Uganda

Financial Specialist

June 2011

EXECUTIVE SUMMARY

a. The main purpose of this mission was to:

- identify the difficulties contractors face when applying for bonds and credit from financial institutions;
- formulate proposals that will assist contractors to have better access to credit;
- explore ways, from the financial perspective, in which the establishment of a plant hire pool could become commercially attractive.

b. Access to credit is difficult for contractors for several reasons:

- Financial institutions have concerns about the risks involved when lending to the road sector;
- Contractors do not always conduct themselves in a way that would help in minimising risk;
- Employer contracts sometimes make it more difficult for contractors to access credit.

c. Contractors seeking to win work have to provide bid bonds when presenting their proposals. If they win a contract they then have to provide performance bonds to give employers some comfort that work will be completed. After that they have to obtain advance payment guarantees to support mobilisation money provided by employers. Finally, they also need retention bonds so that the employer can be sure that any work required during the defect liability period is actually done.

d. Only the largest contractors can self-finance all of these various types of bonds and guarantees and even then may also have an ongoing facility with commercial banks. The MSMEs are required to obtain finance on a contract by contract basis.

e. Bonds and guarantees attract arrangement fees, require collateral normally in the form of immoveable assets (valued at a fraction of market value) and are charged interest at from 0.5-2% per quarter. If collateral is not provided then interest rates are at base rate plus 3-6% i.e. 22-25%.

f. Collateral obligations and finance charges are a significant barrier for MSMEs that want to have access to credit. Consequently, competition in the road construction sector is reduced.

g. Several banks expressed general concerns about road construction as a sector. Employers sometimes delay payments to contractors or even cancel programmes. This means contractors do not receive money on time (or even at all) and banks, therefore, have to take action to recover debts. On occasions there are failures to comply with tripartite agreements (banks, contractors and employers) whereby employers should make contract payments into an account designated by the lender.

h. Also, contractors do not always use contract receipts from employers e.g. advance payments, for their intended purpose. Funds are diverted to finance completion of other contracts or otherwise misappropriated by the contractor. Corruption payments are seen as a major problem in the sector.

i. Collateral and finance charges reflect lenders assessment of risk and, therefore, if risk can be mitigated then borrowing costs will come down and collateral requirements reduced. It is recommended, therefore, that an effective way to reduce risk would be to establish a Construction Guarantee Fund (CGF). The agricultural sector in Uganda demonstrates that a guarantee fund can be used to good effect.

j. A CGF would need to operate in a sustainable and cost effective manner. To be most effective it would need to be accessible to those parts of the sector that would benefit most and which would be able to contribute strongly to the development of a vibrant, profitable and competitive market for road construction.

k. Several options were looked at for the most suitable framework for management of the CGF; the advantages and disadvantages of each were considered. However, the strongest and also the most receptive candidate is the AgriBusiness Initiative Trust (ABIT). It is, therefore, strongly recommended that this option is pursued.

l. ABIT has completed all the required legal formalities in Uganda and the CGF could easily come under its umbrella subject to certain safeguards that ensure DfID money is used for appropriate purposes. It will also be necessary to establish the criteria that allow financial institutions to participate. These include, for example, that the lender follows all necessary steps to recover funds before turning to the CGF and that only certain types of contractor can be accepted; contractors would need to comply with the financial agreements they enter into with lenders (and employers). It is anticipated that many of the formalities for establishing the CGF could be completed within the next few months.

m. An important programme activity that supports the CGF is Business Development Services (BDS) providers. This needs to be in three parts:

- A joint workshop for lenders and contractors that allows both groups to explain their own concerns and provides a forum for developing better relationships;

- Training for staff at lending institutions (including microfinance) that provides better understanding of the challenges faced by contractors in the road sector;

- Training for contractors so that they can prepare better financial proposals, business plans, cash flow forecasts, budgets and manage their finances and costs during the implementation of a contract.

n. In addition to the CGF as a mechanism for improving access to finance, employers could be more flexible in their contract terms. A wide range of possibilities present themselves. The Government of Uganda could withdraw the need for performance bonds (effectively self-insuring the risk); other employers could reduce the performance bond from 10% to 5%. Evidence suggests that the number of performance bonds called is very small, so the risk need not be significant. Employers could write more stages into contracts thereby taking possession of completed sections much earlier. Full performance bonds need not be kept in place until the end of the defect liability period thereby releasing some of the contractor's collateral.

o. One other consideration is for more employers to accept insurance companies as providers of bonds and guarantees. Premiums for insurance policies on bonds entail significantly lower costs (but not levels of collateral) for contractors than services currently provided by banks. Only one or two insurance companies seem to be in this market in Uganda and it would be worthwhile to encourage greater participation.

p. Improved access to finance needs all actors, i.e. financial institutions, contractors and employers in the road sector to make a contribution.

q. With regard to the equipment hire pool, some companies are already in the market. For the most part, they are contractors prepared to rent out equipment that is not being used. However, the taxation system needs to be reviewed in order to see whether or not it could be made more supportive for this sort of activity.

r. Civil engineering is an exempt supply for VAT purposes. This means VAT paid on the acquisition of road construction equipment cannot be offset against a taxable supply. A commercial contractor (as opposed to Force Account) will recoup all costs in the contract price, effectively increasing the price of road construction and maintenance. However, there is a cash flow disadvantage to the contractor who has to pay for equipment upfront before receiving inflows from a contract. It should be pointed out that initial allowances and writing down allowances are available on the purchase of equipment to be set off against profits.

s. Equipment leasing products are currently only offered by two commercial banks (Stanbic and DFCU). The East African Development Bank (EADB) also provides finance leases for the acquisition of equipment, machinery, vehicles and aircraft. EADB has leased equipment to Spencon; its largest leasing arrangement was for $1m and it would not normally consider leases below $100,000 in value.

- RECOMMENDATIONS

  I. Contract conditions for road sector contractors should be amended;
  II. A Construction Guarantee Fund should be established;
  III. A Working Capital Fund should be established once the Construction Guarantee Fund is operational;
  IV. An Equipment Hire Pool should be set up;
  V. Financial institutions should be encouraged to offer equipment leasing services;
  VI. Collateral conditions set by lenders should be reduced;
  VII. The taxation regime for acquisition and leasing of capital equipment should be improved;
  VIII. Reduce higher road construction costs attributable to corruption through more transparent processes;
  IX. Training should be provided across the sector and, in particular, to MSME on business development;

- ACTION POINTS

  a) Facilitate a workshop for contractors, employers and lenders to have a better understanding of issues in the road sector;
  b) Assist contractor associations and professional bodies to negotiate with employers about changes to contract conditions;
  c) Design and implement a Construction Guarantee Fund in partnership with ABIT;
  d) Design and implement a Working Capital Fund in partnership with ABIT;

e) Determine the criteria for MSME that wish to have access to the Construction Guarantee Fund and Working Capital Fund;

f) Organise and participate in the Credit Management Committee of the Construction Guarantee Fund and Working Capital Fund;

g) Establish and monitor lending criteria of the Credit Guarantee Fund;

h) Participate in the setting up of the Equipment Hire Pool;

i) Work with contractors, employers and lenders on amendments to collateral conditions;

j) Assist contractor associations and professional bodies to lobby Uganda Revenue Authority for changes in the system of taxation relating to purchase and leasing of equipment;

k) Co-operate with other actors in the roads sector in the design of mechanisms that reduce the level of corruption in the sector;

l) Discuss with financial institutions opportunities for provision of capital equipment leasing services;

m) Work with commercial banks and EADB on mechanisms for financing and participating in commercial equipment leasing companies;

n) Identify, in partnership with UBA, commercial banks that want to participate in the Construction Guarantee Fund;

o) Design and deliver, in collaboration with engineering experts, training of trainers and other business development workshops for MSME that cover relevant aspects of financial management;

p) Explore opportunities for training at business development workshops to have accreditation from a recognised contractors association or professional body.

1. INTRODUCTION

1.1 This report is based on the Terms of Reference (ToR) for the mission (attached as Appendix 1) and informed by:

- CrossRoads Project document (2009/14)
- Policy for Development and Strengthening the National Construction Industry, MOWT 2010, *("the policy")*
- Meetings held with various stakeholders in the roads sector
- DfID's "Making Market Systems Work Better for the Poor" (M4P) handbook

1.2 The work of the Finance Specialist is derived from Output 3 of the project document which requires:

"Improved access by construction companies to complementary markets, including for finance and equipment hire"

It should be emphasized that, during the mission, the focus has been on identifying market-driven, efficient, cost effective and sustainable options for dealing with access to finance and equipment hire that can be located in the private sector.

1.3 *The policy* also reinforces and provides relevant background for the objectives set out in Output 3. For example:

- Facilitate local contractors and consultants access to construction equipment, credit and work (p.39)
- Establish a Plant Hire Pool (p.39)
- Review tender conditions and allow advance payments up to a maximum of 30% (p.39)
- Review requirements for bid securities, advance payment guarantees and performance bonds (p.39)
- Establish a Construction Guarantee Fund….to assist contractors and consultants to obtain bid securities, performance bonds and advance payment guarantees (p.40)
- The Government of Uganda will provide Ushs 500m (£150,000) to start up the Construction Guarantee Fund (p.30)

- Ensure prompt payment to contractors and consultants in order to improve their cash flow (p.40)

1.4 The ToR for this mission can be summarized as follows:

a) *To establish how the local construction industry is viewed by banks and financial institutions;*

b) *To ascertain the ease (or difficulty) with which supplementary players in the industry can obtain finance;*

c) *Propose methods for assisting the industry as a whole to gain better access to credit facilities;*

d) *Identify key institutions, groups and individuals who can be encouraged to have some future involvement or interest in the CrossRoads programme;*

e) *Examine the position with regard to bonds, sureties and guarantees;*

f) *Propose ways of reducing the collateral burden on contractors;*

g) *Investigate options for offering partial cover in the event of default on bonds;*

h) *Identify areas of risk to the CrossRoads programme in respect of finance and credit and propose mitigating measures.*

1.5 Meetings were held with a range of interested parties in order to obtain a better understanding of current market conditions, to examine the different perceptions and perspectives of those actively involved with the road construction sector and to seek opinions on the most effective and reliable way forward for implementing the objectives of the project and, specifically, Output 3. Notes of meetings are attached as Appendix 2. The meetings included:

➢ Public Sector

- Ministry of Finance, Planning and Economic Development (MOFPED)
- Bank of Uganda (BOU)
- Uganda Development Bank (UDB)
- East African Development Bank (EADB)

➢ Donors

- DANIDA
- DfID
    - ➢ Private Sector
- Statewide Insurance Company
- Ernst & Young
- Development Finance Company of Uganda (DFCU)
- Diamond Trust Bank
- Fina Bank
- Centenary Bank
- Ecobank
- Orient Bank
- Kenya Commercial Bank
- Uganda Bankers' Association (UBA)
- Uganda National Association of Building & Civil Engineering Contractors (UNABCEC)
- A road contractor

1.6 The M4P approach which will be used in the implementation of Crossroads seeks to facilitate market transformations in the road construction and maintenance sector. Interventions will focus on:

- Supporting actors to collaborate for mutual benefit;
- Supporting financial institutions, equipment hire companies and business development services (BDS) to efficiently deliver cost effective products and services to contractors;
- Building strong stakeholder pressure groups to engage with government and lobby and advocate for a more enabling policy and regulatory environment in the roads sector.

1.7 These changes in the market system will lead to more competitive markets and improvements in the road network at lower cost to the Government of Uganda and consequent economic benefits to the country, especially for poor and disadvantaged groups.

1.8 This means that work undertaken during this mission considered and prioritized the following:

- Issues relating to failures in the market by developing better and more affordable mechanisms for reducing and managing risk;
- Recalibration of relationships within the market;
- The importance of developing better linkages and relationships among market actors;
- The value of encouraging greater private sector participation.

2 SUMMARY OF FINDINGS RELATING TO THE ToR

2.1 This section summarises the findings for each of the items referred to in paragraph 1.4. More comprehensive discussion on each of these items is contained within subsequent sections and appendices of this report.

2.2 Dealing with each in turn:

(a) To establish how the local construction industry is viewed by banks and financial institutions

There are mixed messages relating to the way the road construction industry is viewed. Some financial institutions regard contractors as high risk for a variety of reasons. For example, cash flow from contracts is unreliable, advance payments are not always deposited in designated accounts and money is used for inappropriate purposes. Other financial institutions consider the industry to be more reliable especially where careful due diligence is undertaken, the client is known and the employer is respected. As expected, larger contractors with good track records represent better prospects for the banks.

(b) To ascertain the ease (or difficulty) with which supplementary players in the industry can obtain finance

No strong views were expressed one way or the other about supplementary players. If clients had contracts and a good track record then finance was available. This could be based on collateral such as land and buildings or raw materials to be supplied/imported.

(c) Propose methods for assisting the industry as a whole to gain better access to credit facilities

There are a range of strategies that can be adopted to improve access to finance.

- Reducing performance bonds from 10% to 5%;
- Increasing advance payment guarantees from 20% to 30%;
- Changing collateral conditions to give better value for assets offered;
- Changing contract structure so that work can be signed off and handed over to the employer in stages thereby releasing collateral;
- Amending performance bond conditions so that some collateral is released as work is certified;
- Ensuring payments are deposited in designated accounts so reducing lenders' risk;
- Establishment of a Construction Guarantee Fund (CGF) in order to share some risk on performance bonds with lenders and reduce collateral required;
- Use the CGF to underwrite loans to marginal contractors and more MSMEs;
- Create a more vibrant environment for leasing of equipment, including commercial plant hire pools across the country;
- Employers to accept insurance company policies, as well as bank instruments, for performance bonds;
- Amend tax rules so that both purchase and leasing of equipment is more attractive.

(d) Identify key institutions, groups and individuals who can be encouraged to have some future involvement or interest in the CrossRoads programme

Meetings were held with some financial institutions (banks and insurance companies) but time constraints meant it was not possible to meet with, for example, all 24 registered commercial banks. All private institutions expressed interest in the CrossRoads programme and one or two, such as DFCU, would be willing to collaborate more closely on a Steering Committee or similar body. The UBA is the umbrella association for commercial banks in Uganda and the proposal has been made that the Team Leader or Deputy Team Leader should make a short presentation at the June meeting so that all banks have the opportunity to express an interest.

(e) Examine the position with regard to bonds, sureties and guarantees

This issue has also been covered in the item above relating to better access to credit facilities. The market for road construction industry bonds is dominated overwhelmingly by commercial banks. Banks require collateral and, often, a cash deposit for bonds and guarantees (otherwise lending is at high rates—base rate plus 3-6%). Very few insurance companies seem to be in the market, in part because some employers only accept bank bonds. Insurance premium rates seen for bonds would entail significantly lower payments than required by banks and if more insurance companies were in the market prices across the finance sector could be forced down. Banks are perceived as more reliable in cases of default compared to insurance companies and, therefore, employers prefer that bonds of all sorts are provided by the banking sector.

(f) Propose ways of reducing the collateral burden on contractors

This issue has also been covered in the item above relating to better access to credit facilities. If lenders accepted higher values for assets offered as security this would reduce the burden on contractors, for example, taking 80% of market value rather than 75% of forced sale value. A CGF would share risks with lenders and reduce collateral requirements. Employers could be encouraged to discharge bonds (and, therefore, collateral) more quickly.

(g) Investigate options for offering partial cover in the event of default on bonds

Information provided by the BOU and ABTI suggests that defaults are low. An export credit guarantee scheme had one claim in five years and the default rate at ABTI is around 1%. There might be reasons for this such as strong due diligence or over-conservative lending criteria. If MSME are to be encouraged to enter and prosper in the road construction industry then loans made or bonds written might be more risky. However, a CGF would be a good way in which to offer partial cover against default.

(h) Identify areas of risk to the CrossRoads programme in respect of finance and credit and propose mitigating measures

This report will identify options for the way in which DfID funds could be managed in order to improve access to credit and finance for the road industry sector. The establishment of a CGF presents risk in terms of timing, impact, lending strategy and level of default. To start a CGF from scratch requires considerable work from STE, substantial legal fees, procurement of reliable managers, preparation of MoU with participating institutions, drafting of participation agreements, preparation of an investment policy and potentially costly experience in arriving at acceptable default levels. These risks would be mitigated if the CGF could join a scheme that had already overcome these issues. This would then enable the

CrossRoads programme to focus on the use and impact of the CGF from an early stage.

3 ACCESS TO FINANCE ISSUES

3.1 Road construction contractors need finance for bid securities, performance guarantees and advance payment guarantees. However, for the most part, the largest contractors are self financing in that they have access to internal finance or else have their own arrangements with commercial banks. Thus, it is the micro, small and medium (MSME) size contractors that are of most interest.

3.2 The project document (paragraph 13) states that *"small firms find it difficult to obtain sufficient title to property and cash and so cannot raise finance to increase productivity and grow their businesses".*

3.3 This situation has been confirmed at meetings with commercial banks. Every commercial bank has a process for assessing risk before making loans. In almost all cases this assessment process covers the track record of the client, size of business, availability of collateral, access to equipment and labour, contract award and credit history. All of these act as barriers to MSME successfully breaking into the market. Where an MSME does overcome these obstacles then the price charged for finance will probably be higher than for larger more established enterprises.

3.4 The issue of collateral sufficiency referred to in 2.2 is particularly acute for MSME because all banks require collateral to be in the form of immoveable assets i.e. land and buildings and only a few accept other assets such as vehicles to make up any shortfall. Even worse the collateral is valued at "forced sale value" (perhaps 80% or less of full market value) and then that value might be further reduced by 20-25%. This means, for example, that property with market value of, say, $100,000 might only be worth $60,000 as collateral.

3.5 Given that collateral will be asked for at all stages of the bidding process, MSME are constrained from contracting for more than one or two contracts at a time because their underlying asset base will be low. This situation is made even worse for MSME because employers require the full performance guarantee to be maintained for a period after the contract has been completed in order to cover any remedial work that needs to be done. So, even after completing a job the MSME will not have collateral to then bid for further work meaning there will be idle time for labour and equipment and consequent reduction in profitability.

3.6 The MSME suffers in another way in relation to use of collateral. The employer normally requires that the full performance bond guarantee is kept in place for the whole duration of the contract even though (substantial) progress might have been made in completing it and appropriate certificates signed. The risk to the employer will have been mitigated as stages of the contract have been satisfactorily completed. This procedure might arise from interpretation of Public Procurement and Disposals Authority regulations and needs to be reviewed. In any event, drawing up contracts where work can be signed off in stages, handed over for use to the employer and collateral reduced would be a positive step.

3.7 In the case of performance bonds banks usually ask for cash i.e. a performance bond to cover a contract of $100,000 will cost $10,000 and the contractor will have to deposit all or a substantial part of this. Occasionally, banks will accept immoveable assets as security instead of cash. However, an insurance company will only require a premium of 2% ($200). This is clearly advantageous for a MSME as long as they can meet the rigorous screening requirements in order to be accepted by the insurer; collateral will still be required for the full contract value. At the moment there are not many insurance companies in this market for various reasons such as employers preferring contractors to use bank bonds and lack of profitability because of the limited scale of opportunities for them.

3.8 The price charged by banks for various types of bonds varies according to their risk assessment of the road contractor but typically are in the following ranges:

- Bid security 1-2.5%
- Performance Bond 0.35-3% per quarter
- Advance payment 1-3% per quarter

There is usually a one off administration or arrangement fee of 1%.

3.9 If a contractor wants to obtain additional finance without security, through a "facility" or overdraft arrangement, the banks normally charge base rate (around 18/19%) plus 2-6%. This type of financing might be used to provide extra working capital or for asset/equipment purchases (although in this case the rate will probably be reduced because the asset provides some security for the bank). Access to equipment is a factor banks consider when assessing the risk of lending to a contractor. Thus, a contractor without enough or any of his own equipment is at a disadvantage when applying for bank support.

3.10 Commercial banks also price risk according to the employer i.e. organization that has awarded the contract because some employers are more reliable payers than others. However, the banks vary in their opinion of employers. Some consider the Government of Uganda to represent high risk while others take the opposite view now that commitment accounting is used. Some think that the donor community is high/medium risk because of the degree of bureaucracy involved in their contracts plus the possibility that programmes might be cancelled; others consider that donors pay more promptly.

3.11 There is one other factor that was either alluded to or specifically mentioned at most meetings with stakeholders. Corruption in the road construction sector is regarded as being so endemic that it is costed into the price of contracts. However, it must be stated that these assertions have not been supported by hard evidence and it is outside the ToR in Appendix 1 to undertake any meaningful investigation. Paragraph 15 of the project document compares costs of road building in Tanzania and Uganda. The cost of a kilometer of paved road in Uganda is 171% higher than in Tanzania and the cost of a kilometer of gravel road is 125% higher. There are, of course, several factors that contribute to these cost differences such as limited competition, especially for paved road contracts, capacity of local contractors, skill levels, access to finance and equipment. Although the cost of corruption cannot be accurately assessed, estimates from stakeholders put it in the range of 10-30% of contract price. The elimination or, more realistically, a substantial reduction, in the opportunities for corruption would clearly have an enormous benefit for the Government of Uganda, contractors and civil society. The expectation that successful contractors have to make “commission” or corruption payments is a huge barrier to MSME entering the sector and has a significant effect on narrow profit margins. The issue is also reflected in commercial banks assessment of the road construction sector as high risk because they realize that advance payments are often used to pay for corruption rather than contract working capital and reduction in loans. This also explains why contractors try to circumvent the agreements they have with banks for advance payments to be deposited in designated accounts.

3.12 It has been reported that corruption extends across the entire range of road construction industry contracting---pre-qualification of contractors, procurement procedures, certification of completed works. These issues are being addressed elsewhere in the project but finance can play its part by, for example, persuading banks to monitor utilization of advance payments more closely (as is done by at least one bank) and ensuring contractors (or employers, if possible) deposit funds directly into designated bank accounts.

3.13 It is clear from the preceding paragraphs that access to finance is a major problem for MSME in the road construction sector because:

- Cost of finance is high
- Profitability of MSME is reduced

- Investment in capital equipment is expensive
- Collateral requirements are onerous
- Employer contract conditions cause problems
- Growth is inhibited
- Entry to the sector is difficult and competitiveness is reduced
- Generating and increasing working capital is difficult
- Payment for corruption from contract fees is common

4 ACCESS TO EQUIPMENT

4.1 Before lending to contractors one of the criteria that banks look at is whether or not the contractor has enough equipment to undertake a contract.

4.2 The road construction industry, except for labour based contracts, is capital intensive as the following indicative prices for equipment show:

- Bulldozer £180,000
- Low Loader £135,000
- Track Loader £135,000
- Excavator £90,000
- Motor Grader £90,000
- Tipper Truck £50,000
- Motor Bowser £45,000

4.3 If a MSME wants to undertake work more efficiently, make more profit and grow in size then access to equipment is a fundamental issue.

4.4 There are several ways in which an MSME can access road construction equipment:

a) Outright cash purchase

b) Asset purchase loan

c) Leasing

d) Hire

4.5 Outright cash purchase, almost by definition, will be outside the resources of MSMEs and, for the purposes of this report is ignored.

4.6 Asset purchase loans are provided by banks. Collateral will normally be required to back a loan (the asset itself will provide some collateral but will be a depreciating asset as the equipment is used) and banks will look to the same sort of collateral as contractors offer for contract bonds i.e. immoveable assets if a similar rate of interest is to be charged. If the contractor's collateral is tied up supporting contract bonds then asset purchase loans will attract high rates of interest (base rate plus 2-6%).

4.7 The leasing market in Uganda is small, only two commercial banks offer the service (Stanbic and DFCU); EADB also leases equipment, machinery, vehicles and aircraft.

4.8 There is also an issue that links asset purchase loans and leasing. Civil engineering works such as roads and bridges are an exempt supply for VAT purposes. This means the VAT on purchased equipment cannot be reclaimed. Any loans for equipment, therefore, have to take into account the non-reclaimable VAT of 18%. The contractor will pass this cost on to the employer and road construction costs will be higher. However, there is an adverse effect on cash flow because equipment has to be purchased before there is an inflow from contract work.

4.9 There is a counterbalancing point which is that the tax system provides allowances (tax relief) for asset purchases. An Initial Allowance of 50-75% (depending on location) is available in the year of acquisition plus a writing-down allowance of 20% (reducing balance method) in the year of acquisition and subsequent years. The cash flow situation still works against the contractor because there is an immediate outflow for the purchase and only subsequent relief in reduced tax payments later.

4.10 The remaining option is equipment hire and for MSMEs this is likely to be the most affordable way of accessing equipment. It is outside the scope of this mission to identify the stock of road construction equipment in the country or the availability of equipment hire companies. However, during discussions with banks several equipment hire companies were mentioned. Many of these companies are also themselves construction companies that hire out spare equipment when they are not using it. A mechanism by which some sort of commercial equipment hire pool could be established, across the country, and where necessary using stock held by Force Account would be advantageous to the industry.

5 IMPROVING ACCESS TO FINANCE

5.1 There are two main ways in which access to finance for MSME could be improved.

5.2 The first way concerns amending contracts between employers and contractors. In particular, a competitive edge could be provided for MSME by only changing contracts in which they are involved. Employer contracts could be changed at little risk by, for example, making arrangements for work to be handed over for use in stages wherever possible rather than waiting for 100% completion.

5.3 The second way involves mitigating the risk that commercial banks take on when they price loans and bonds for contractors.

5.4 Dealing with contract conditions first. It would help MSME in the sector if employers:

i. Reduced performance bonds from 10% to 5%. This entails a risk for employers because of the smaller value of the bond but, over the long term, would increase competition in the sector as more contractors could afford to enter the market and have the effect of lowering road construction charges.

ii. Increased advance payments, temporarily, from 20% to 30% as envisaged in "*the policy".* This would help MSME to finance working capital more easily and thus make them more resilient and less reliant on bank finance. It is, of course, true that if advance payments were used fully for their intended purpose then 20% might be sufficient but that is not the reality in the market. More widespread use of tripartite agreements between lenders, contractors and employers that require contract payments to be deposited in a designated account would be helpful.

iii. Structured contracts wherever possible so that completed stages can be handed over to the employer for use and a proportion of collateral reduced. This would reduce interest charges for MSME and allow collateral to be moved on to support proposals for new work.

iv. Amended performance bond conditions so that, as in iii, collateral can be released as work is certified.

v. Allow contractors to provide bonds backed by insurance companies. There should not be any risk to employers as long as insurance companies prove to be as reliable as banks in meeting bond obligations. Costs to MSME of insurance policies appear to be significantly lower than bank finance.

5.5 This could be achieved in several ways:

i. Change collateral conditions to give better value for assets offered (see paragraphs 2.2f and 3.4). This would still provide banks with adequate security but allow the asset base of MSME to be used more widely.

ii. Ensure the tripartite agreement between employers, contractors and banks is followed so that payments are deposited in designated bank accounts. Banks complain that contractors sometimes persuade employers to give them cheques rather than transfer money directly into a designated account as specified in the bond agreement. This means banks price the risk of not receiving money in the interest rates charged to contractors; many suffer because of the actions of a few.

iii. Establish a CGF in order to share some of the risk that commercial banks take on when lending to MSME. If it is assumed that the risk is shared 50:50, then interest rates should be halved and the amount of collateral required reduced. The Agricultural Credit Facility administered by the BOU requires commercial banks to lend at half their normal rate. There might be a different impact in that if a bank's risks were reduced it might be more prepared to lend at existing rates to a marginal contractor i.e. one that would not otherwise have been given credit. Either way there are potential benefits to the sector. The management of a CGF is dealt with more fully in Section 6.

ILLUSTRATION OF POTENTIAL IMPACT OF A CGF:

Assume the CGF is £2m and that the risk is shared 50:50 with banks.

A contractor wins a contract worth £100,000 and, therefore, needs a performance bond of £10,000. The bank still provides the full bond but in the event of default has recourse to the CGF for 50%. This means the CGF could support 400 contracts of similar size (£2m/5,000) i.e. £40m.

However, to be cautious in the early years, the need to raise awareness about the fund and because of uncertainty about default rates the CGF might support contracts with the following values:

Year 1	*£15m*

Year 2	*£20m*
Year 3	*£20m*
Year 4	*£25m*
Cumulative	*£80m*

Based on the above scenario (and ignoring management charges, defaults and income earned), the CGF could, over four years, support contracts with a cumulative value of £80m.

6. MANAGEMENT OF A CGF

6.1 A CGF would benefit contractors through reduction in bank charges and collateral requirements. Banks would not be adversely affected because they receive payment and collateral according to the share of the risk they take.

6.2 An important issue when establishing a CGF is how it should be managed. In arriving at the best option the following should be taken into account:

- The need to create a better enabling environment in the road construction sector
- Issues relating to failures in the market by developing better and more affordable mechanisms for reducing and managing risk
- Recalibration of relationships within the market
- The importance of developing better linkages and relationships between market actors
- The value of encouraging greater private sector participation

6.3 Furthermore, consideration of the options should be influenced by the following criteria:

- Recognition of the importance of sustainability of the fund
- Provision of access to finance with lower rates of interest and less onerous collateral requirements to MSME in the road construction industry
- Creates effective change in the structure and characteristics of the market for finance
- Makes the finance market work more effectively for the poor, including entrepreneurs (MSMEs), employees and consumers
- Has reliable management

- Consistent with principles of good governance
- Cost efficient and straightforward to set up
- Operational in the near future (say 6 months)

6.4 In order to ensure the CGF is functioning and has an impact on the road construction sector as soon as reasonably possible several practical aspects need to be borne in mind. These include preparation of legal documents for those financial institutions that will participate, establishment of criteria for contractors that want to have access to the fund, finding suitably qualified managers to administer the fund, appointment of a committee representative of all stakeholders and sympathetic to the aims of CrossRoads, lending/risk criteria to be followed and adoption of an investment policy for utilisation of the funds assets.

6.5 During this mission various options were discussed with stakeholders. These are set out below with comments based on paragraphs 6.2-6.4:

i. Bank of Uganda (BOU)

The BOU was proposed by several institutions because it is the independent regulatory body for the banking sector. However, this is not a viable option for two reasons. Firstly, and most clearly, the BOU does not want to manage any more guarantee funds. Secondly, if the BOU had been willing then the CGF would have been managed by a public sector body. Thus, this option is ***rejected***.

ii. Uganda Bankers' Association (UBA)

The UBA is a private sector umbrella body for all commercial banks in Uganda. However, it does not have the capacity or experience to manage a guarantee fund. Thus, this option is ***rejected***. The possibility of asking the Chief Executive of UBA to sit on the management committee of the CGF should be considered.

iii. Uganda Construction Industry Commission (UCICO)

UCICO is a body to be set up by the Government of Uganda in accordance with *"the policy"*. Included in its remit is management of a CGF with start up money of UGX500m (£150,000) in each of financial years 2010/11 and 2011/12. However, UCICO as a public sector institution has not yet been established and, thus does not have experience or capacity to manage a CGF at this point in time. For all of those reasons it is ***rejected*** as an option.

iv. Uganda Development Bank (UDB)

UDB was established in 1972 to encourage and facilitate investment in Uganda. It operates, in effect, as a commercial bank but regulated by the Ministry of Finance rather than the BOU. It is a public sector institution with no experience of managing guarantee funds. Also, as a competitor of the commercial banking sector there is the risk that if management of the CGF was placed in its hands a monopoly situation would be created and other banks would not participate. It is ***rejected*** therefore as an option.

v. One private sector bank

A private sector bank is a ***possibility***. However, other commercial banks might not like the idea of the fund being managed by a competitor and so take up could be disappointing. The Team Leader or the Deputy Team Leader will attend the June meeting of the UBA and can ask members for their sentiments with regard to this option.

vi. Consortium of participating commercial banks

This is also a ***possibility*** but poses logistical problems as to where and how the CGF would be managed. Competitors might be reluctant to share information about clients, bank charges and default rates. The meeting of UBA referred to in (v) might also deal with this issue.

vii. Big 4 accountancy firm

Accountancy firms have experience of dealing with donor funds as auditors and financial managers. One of the big 4 firms would be a ***possibility*** to manage the fund but there are reservations in terms of cost, access to financial information of clients with rival firms and regulatory issues.

viii. Local consultancy firm/NGO

A local consultancy firm or NGO would probably not have credibility in finance sector for managing a CGF. There would also be issues relating to sustainability and regulation. Accordingly, this option is ***rejected.***

ix. DfID Trust Fund

A trust fund could be established under Ugandan law with DfID as the settlor. Management of the fund would be set out in the Trust Deed and five or six well-regarded trustees could be appointed from civil society. However, this would only provide the legal framework and day to day management of the fund would need to be undertaken by an appropriately qualified team. An office and secretariat would need to be established and, therefore, set up and running costs would probably be high. There would be problems getting the CGF functional in a timely manner and then being able to generate credibility with contractors and bankers. Accordingly, this option is ***not recommended.***

x. AgriBusiness Initiative Trust (ABIT)

This trust has been set up by DANIDA primarily for the agricultural sector but with flexibility to cope with other sectors as well. It is intended to be a vehicle for long term, sustainable interventions in the chosen sectors by the donor community. It has an endowment of $30m which includes contributions from several donors (Denmark, EU, Belgium, Sweden, USA).

The legal framework is in place; there is existing proven capacity; management charges are low (2%); it has sound investment policies; emphasis on the private sector; commercial banks already work with ABTI. The CGF could be segmented from the main endowment and for the duration of the programme CrossRoads could be involved with oversight of the DfID contribution to ensure appropriate goals and objectives are met. Importantly, subject to preparation of documents e.g. MoU, the CGF could be operational and used for interventions in the short term (say, 3 months).

Accordingly, this option is ***very strongly recommended*** as the way forward for the CGF.

7. ACCESS TO THE CGF

7.1 There are questions that need to be resolved regarding access to the fund:

- What size of MSME relevant to the road construction sector? For example, the classification of an SME would include factors such as number of employees, turnover, asset value. What parameters need to be set for road contractors in order to reach the optimum number depends on the structure of the sector in Uganda. Work needs to be done in order to find out the number, size and location of contractors in the country. At that point the criteria for effective intervention for the CGF can be established.
- Having found out the relevant number of contractors in Uganda that would be eligible to use the CGF then certain conditions need to be set. The conditions should not be so onerous as to make it too difficult to find suitable contractors but there should be some rigour in the process that focuses on reliability and quality. For example, the contractor:
    - Is in good standing with Uganda Revenue Authority;
    - Has 3 years of audited financial statements;
    - Employs qualified engineers;
    - Provides training for operatives;
    - Does not have an unfavourable record with the Credit Reference Bureau;
    - Has a track record in road maintenance and/or construction;

- Derives more than a specified % of turnover from road maintenance and construction.

7.2 Use of the CGF needs to be examined in more detail in partnership with actors in the road sector such as representatives of the road contracting industry, employers and banks. This can be dealt with in two parts:

i. What bonds the CGF should support?

ii. If any part of the fund can be used to support working capital requirements of MSMEs.

7.3 There are several types of bonds that contractors require:

a. Bid securities
b. Performance guarantees
c. Advance payment guarantees
d. Retention money guarantees

7.4 Bid securities are normally quite small, around 1% of contract value. If a contractor is so small or so overambitious that support is needed for a bid security then it would not be sensible to provide access to the CGF.

7.5 Advance payment guarantees are more substantial because they underwrite payments of 20% of contract value. As the CGF becomes operational the risk associated with supporting advance payment guarantees is likely to be too high; the existing market should continue to operate here albeit with, perhaps, some relaxation in collateral requirements. Over time as the CGF managers become more familiar with the market, acquire better knowledge about individual contractors and know more about default rates then they could begin to offer some support for smaller contractors with regard to advance payment guarantees.

7.6 Performance bonds are fundamental to the sector because employers require contractors to hold such bonds to ensure they have some recourse where there is default. Typically a performance bond is 10% of contract value and is essential for a contractor who wins a tender. The costs of financing a performance bond and the collateral required have already been discussed; they can be difficult for an MSME contractor to support. It is here that it is ***recommended*** that the CGF should concentrate its attention.

7.7 More information is needed with regard to performance bond defaults. Experience at ABIT shows that defaults are in the order of 0.9% and the BOU reported that the Export Credit Guarantee Scheme had one claim in five years. Low default rates might be because of over-cautious lending and/or rigorous due diligence.

7.8 Retention money guarantees need to back the 5-10% of contract value that is held back by the employer during the defects liability period. The CGF could also consider supporting these guarantees.

7.9 Management of cash flow is important for all businesses whatever their size. MSME would benefit from business development training that improved various aspects of their management systems. While advance payments are intended to provide contractors with enough working capital to make progress on the contract they have been awarded it has often been reported that this is not the case. Factors such as diversions to wrong (undesignated) accounts, use of funds to support bids for other contracts and payments for *kitu ki dogo* mean that the contractor is short of working capital. It would be helpful if a portion of the CGF could be set aside to finance working capital requirements and stimulate business growth. However, the priority should be to ensure the CGF for performance bonds is functioning as soon as possible; using the CGF to finance working capital is something that can be dealt with at a later date.

8. EQUIPMENT HIRE POOL

8.1 The case for improving access to capital equipment for MSMEs has been made in Section 4.

8.2 Meetings with banks and others established that there are equipment hire companies in Uganda, predominantly based around Kampala. These companies tend to provide equipment hire alongside other activities. They might be contractors who hire out equipment that they are not currently using or suppliers of machinery and vehicles who hire out second hand equipment that they have on their books.

8.3 It is clear that a more rigorous study of the market needs to take place that also encompasses a stock take of the amount of useful road construction equipment in Uganda and where it is located.

8.4 There is also a need to explore the extent to which the Government of Uganda is prepared to provide incentives through the taxation system (VAT and profits related) for companies to buy or lease equipment. It might also be possible to create tax breaks for companies (including commercial banks) that lease equipment to the sector. Tax advantages could be given to MSMEs that want to acquire by purchase or lease some capital equipment and these could also be implemented on a regional basis to ensure equipment stocks are located around the country.

8.5 After the studies referred to above and consideration of amendments to the taxation system the extent and nature, if any, of interventions required by CrossRoads will become more clear.

8.6 The focus should be on encouraging the development of a vigorous, competitive and profitable market for the lease or sale of equipment. An equipment hire pool is likely to be one way of moving forward with this objective.

9. BUSINESS DEVELOPMENT SERVICES (BDS)

9.1 The importance of stronger management at MSME has already been alluded to in paragraph 7.9. However, this needs to be broader than just cash and working capital management as referred to in that paragraph.

9.2 BDS encompasses a wide range of technical skills and professional standards. In the context of this report it includes better budgeting in proposals, effective project management, recognition of and compliance with financial arrangements entered into, stronger cash management and good control over costs.

9.3 BDS is multi-faceted because it involves participation by people with different backgrounds, for example engineers and accountants. Planned and structured BDS requires proper co-ordination combined with delivery of content by a range of professionals with a practical background, particularly those with experience in training.

9.4 Participants on BDS training courses would include:

- Contractors
- Professional association representatives
- Employers
- Lenders

9.5 There is also a good case to be made for the organisation of round table discussions that involve the above participants so that, in a non-confrontational way, they can share experiences and concerns in order to have a better understanding of each other's position.

10. RECOMMENDATIONS

I. Contract conditions for road sector contractors should be amended;

II. A Construction Guarantee Fund should be established;

III. A Working Capital Fund should be established once the Construction Guarantee Fund is operational;

IV. An Equipment Hire Pool should be set up;

V. Financial institutions should be encouraged to offer equipment leasing services;

VI. Collateral conditions set by lenders should be reduced;

VII. The taxation regime for acquisition and leasing of capital equipment should be improved;

VIII. Reduce higher road construction costs attributable to corruption through more transparent processes;

IX. Training should be provided across the sector and, in particular, to MSME on business development;

11. ACTION POINTS

a) Facilitate a workshop for contractors, employers and lenders to have a better understanding of issues in the road sector;

b) Assist contractor associations and professional bodies to negotiate with employers about changes to contract conditions;

c) Design and implement a Construction Guarantee Fund in partnership with ABIT;

d) Design and implement a Working Capital Fund in partnership with ABIT;

e) Determine the criteria for MSME that wish to have access to the Construction Guarantee Fund and Working Capital Fund;

f) Organise and participate in the Credit Management Committee of the Construction Guarantee Fund and Working Capital Fund;

g) Establish and monitor lending criteria of the Credit Guarantee Fund;

h) Participate in the setting up of the Equipment Hire Pool;

i) Work with contractors, employers and lenders on amendments to collateral conditions;

j) Assist contractor associations and professional bodies to lobby Uganda Revenue Authority for changes in the system of taxation relating to purchase and leasing of equipment;

k) Co-operate with other actors in the roads sector in the design of mechanisms that reduce the level of corruption in the sector;

l) Discuss with financial institutions opportunities for provision of capital equipment leasing services;

m) Work with commercial banks and EADB on mechanisms for financing and participating in commercial equipment leasing companies;

n) Identify, in partnership with UBA, commercial banks that want to participate in the Construction Guarantee Fund;

o) Design and deliver, in collaboration with engineering experts, training of trainers and other business development workshops for MSME that cover relevant aspects of financial management;

p) Explore opportunities for training at business development workshops to have accreditation from a recognised contractors association or professional body.

APPENDIX 1

CROSSROADS Progamme

Terms of Reference for the Finance Specialist

Introduction

Creating Opportunities for Sustainable Spending on Roads (CrossRoads) is a four-year programme jointly funded by DFID and the European Union. The **goal** of the programme is **to improve the quality of the road network in Uganda**. The **purpose** of the programme is **to improve effectiveness of Government of Uganda expenditure on roads**. The programme is expected to deliver four **outputs**, namely:

Output 1:	Public institutions better able to manage road network, including by promoting road safety.
Output:	Policy and institutional reform helps set appropriate rules of the game for a competitive road construction industry.
Output 3:	Improved access by construction companies to complementary markets for finance and equipment hire.
Output 4:	Increased capability and competition in the roads construction sector.

This document describes the objectives and activities required of the Microfinance/Finance short term expert (STE) in providing specialist input to the newly established CrossRoads Programme Secretariat, currently being set up by WSP imc in Kampala, Uganda.

Key Tasks

The services of the Microfinance/Financial Specialist are required to conduct an assessment and prepare a report on how **Output 3** can be effectively addressed by CrossRoads during three and half years of project implementation.

The Microfinance/Finance expert's main assignment objective is to investigate ways of improving the domestic road construction industry's access to finance. This is not restricted to contractors, but increasing lending and facilitating an improved cash flow to construction companies does form a significant part of the assignment. In particular, the STE will review options already put forward for the creation of a Construction Guarantee Fund. Microfinance aspects will entail the preparation of proposals on how to encourage smaller players to enter the market; for those SME's (small and medium enterprises) already in existence, develop criteria to assist their development.

The STE shall co-ordinate his activities through the Team Leader (David Entwistle) and Market Systems Development Specialist (Alex Mugova) in the development of his modus operandi for achieving his assignment objectives during the inception period of the CrossRoads Programme. Specifically, the services will include the following tasks:

1. To establish how the local construction industry is viewed by banks and financial institutions; is it viewed as a 'high-risk' industry? Do banks restrict their lending to established companies? How easy is it for smaller/emerging contractors to obtain finance? Prepare proposals on how the Programme may be able to encourage financial institutions to support SMEs and emerging companies.
2. To ascertain the ease (or difficulty) with which investors/supplementary players in the industry can obtain finance. For example, can an organisation get finance to start up a pipe making company or to set up a commercial materials testing laboratory?
3. Propose methods for assisting the industry as a whole to gain better access to credit facilities, for example, to expand their businesses. Are there financial institutions other than banks that have a role to play in improving lines of credit to the construction industry?
4. Identify key institutions, groups and individuals who can be encouraged to have some future involvement or interest in the CrossRoads Programme and its constituent interventions insofar as finance is concerned.
5. Currently contractors have to obtain bonds, surety's or guarantees for performance bonds and advance payment guarantees. In addition they have retention deducted from each monthly certificate which is often as much as 10%. Performance bonds are normally demanded for 10% of the contract sum. Advance payments up to 25% of the contract sum can be given to the contractor to assist his cash flow but he often has to lodge colateral of the full amount of the guarantee to secure these bonds/guarantees from a financial institution.
6. Propose ways of reducing this colateral burden on contractors. One idea is to set up a Construction Guarantee Fund to support contractors to get bonds more easily. Review the work carried out in Uganda as to how this Fund could be operated, by whom, and give an indication of the funds required to start up and run this Fund.
7. The STE should also investigate options for offering partial cover in the event of default on bonds in order to overcome the perceived reluctance of banks to lend to emerging companies.
8. To identify areas of risk to the CrossRoads Programme in respect of finance and credit and propose mitigating measures where appropriate.

Timing and Inputs

It is envisaged that these initial investigations and proposals will take approximately 25 working days to complete, to be undertaken before the end of May 2011. The scope and duration of this assignment, however, may be adjusted according to circumstance by mutual agreement.

Close co-operation with the Team Leader will be required throughout this assignment. It is expected that the STE will arrange and conduct numerous meetings with financial institutions in order to fulfil their tasks.

This assignment will be carried out in Kampala, Uganda.

Deliverables

The aim of this assignment is to contribute to the final inception report, due in June 2011, in terms of formulating suggestions as to how local road construction companies can best be supported by financial institutions. Concise, but detailed, briefing notes should be provided for each of the tasks outlined above and in particular the consultant shall prepare proposals for a construction guarantee fund and/or a construction bank. A draft report of the STE's findings is to be submitted three days before the final day of the assignment. Following discussions with the Team Leader the STE will compile a final report before departing Uganda.

Appendix 2

NOTES OF MEETINGS HELD BY THE FINANCE SPECIALIST 2 May-2 June 2011

2. INTRODUCTION

2.1 Some of these meetings were also attended by the Deputy Team Leader.

2.2 The following organizations were visited:

- Public Sector

- Ministry of Finance, Planning and Economic Development (MOFPED)
- Bank Of Uganda (BOU)
- Uganda Development Bank (UDB)
- East African Development Bank (EADB)

- Donors

- DANIDA Private Sector Development and Support

- Private Sector

- Development Finance Company of Uganda (DFCU)
- Diamond Trust Bank
- Fina Bank
- Centenary Bank
- Ecobank
- Orient Bank
- Kenya Commercial Bank (KCB)
- Uganda Bankers' Association (UBA)
- Statewide Insurance Company (SWICO)
- Ernst & Young (EY)

2.3 In addition to the above organizations informal meetings were held with:

- AA & L Associates
- Uganda Road Fund
- A contractor
- AgriBusiness Initiative Trust

3. MEETINGS NOTES

(a) MOFPED

i. The ministry is interested in developing competitiveness in the road construction sector and, thereby, obtaining better value for government spending.

ii. It is important that there are more locally based firms in the sector and that they can compete effectively with international firms.

iii. In order to grow locally based capacity, skills development is a crucial factor---contracting, project management, budgeting, financial management, engineering and so on.

iv. Better access to cheaper finance is also important.

v. China will be providing soon a substantial number of units of construction equipment for use in the public sector and it would be sensible to ensure that these are dispersed regionally and accessible to the private sector (as well as Force Account) on commercial hire terms.

vi. Local contractors need to develop in size so that they can compete on equal terms with the international firms which, at the moment, win most of the larger contracts.

vii. It would be useful to develop regional plant hire pools so that contractors can hire equipment as they need it. This would mean that they did not have to borrow large sums of money to buy their own equipment which might be left idle for periods of time when they do not have contracts. There would also be beneficial effects in terms of liquidity and profitability.

viii. A guarantee fund would reduce risk to commercial lenders and enable them to provide loans at lower prices to contractors. It would be worth visiting the BOU to see how the Agricultural Facility Fund is administered.

ix. MOFPED thought that government/public sector should participate in a guarantee fund (NOTE: it was not clear if this meant as managing agent and/or contributor).

x. Another issue that causes problems in the road sector is that objections to successful bids take a long time to be resolved (this means the winning contractor has collateral tied up while the issue is resolved and makes it more difficult to bid on other contracts).

xi. DANIDA has set up a trust fund for agriculture that operates on a revolving basis (see (l) below).

(b) UBA

i. UBA is the professional body for bankers in Uganda (www.ugandabankers.org). It has 24 member banks.

ii. The Finance specialist explained that meetings had been held or were planned with 7 banks to discuss issues relating to finance and lending to road contractors.

iii. **It was agreed that a sensible course of action would be for the Team Leader or Deputy Team Leader to attend the June meeting of UBA to explain to members what the project was looking for from commercial banks.** This would give all the banks an opportunity to discuss the project and decide whether or not they wanted to participate in any way. The input from CrossRoads at that meeting would be approximately 10 minutes. After that the members could discuss the issues among themselves eg if/how to participate (singly/consortium), if a guarantee fund was a good idea, who and how should manage it.

iv. UBA advised that we should meet with the BOU.

v. UBA has limited management capacity but it might be a good idea to invite the Executive Director to sit on the project Steering Committee.

(c) DFCU

People met: Head of Development and Institutional Banking

Type of Institution: Commercial Bank

Structure and size of Institution: Listed company on Uganda SE (60% owned by Commonwealth Development Corporation)

Regulated by: BOU

i. The bank lends to the road construction sector but regards it as high risk (especially new entrants).

ii.

iii. Criteria for lending include that the contractor has been awarded a contract and in other respects satisfies the bank's risk matrix eg size, reputation, experience, credit track record.

iv. When lending it requires security of between 100-140% of the advance; preferred collateral is immoveable assets (land and buildings) valued at 50% of market price.

v. It finances bid securities, performance bonds and advance payment guarantees. Contract payments are required to be deposited in a designated account with the bank and then used partly to reduce debt and partly to fund working capital.

vi. Lending on overdraft and unsecured loans is at bank rate (19%) plus 3 or 4%.

vii. Issues relating to the sector include lack of respect for bank lending i.e. borrowers do not always follow the conditions of the loan, problems relating to cash flow i.e. the employer (often GoU) does not release money in good time and level of contract performance.

viii. Grading of contractors by UNRA is seen as a good step but it would be better to have fewer pre-qualified stronger contractors in the market.

ix. The establishment of a plant hire pool would be good if there were enough centres around the country and there was a commitment to use them (perhaps by approving regional pools based on quality, reliability etc)/ (units at Force Account centres could also be made available, at commercial rates, to the industry thus providing funds for replenishment of government equipment stock).

x. The bank would be interested in entering into lease arrangements with experienced contractors; the equipment would belong to the bank (a finance lease) thus providing security with a buy-back clause for the contractor at the end of the lease.

xi. Corruption is an issue at all stages of the contracting process (proposals/awards/advancing funds/signing certificates).

xii. The bank would be interested in some sort of guarantee fund similar to the Agricultural Finance Fund administered by the BOU.

xiii. The person met would be a good candidate for the Steering Committee because he is both a senior banker and a UK qualified accountant.

(d) Diamond Trust Bank

People met: Head of Corporate Banking

Type of Institution: Commercial Bank

Structure and size of Institution: Listed company on Nairobi SE (subsidiary of Diamond Trust Bank India listed on Mumbai SE)

Regulated by: BOU

i. The bank finances bid securities, performance bonds (4% pa x value of bond) and advance payment guarantees.

ii. It regards GoU contracts (including MOWP and UNRA) as high risk because of payment problems, multilateral donors as medium risk because of bureaucracy and occasional programme cancellation, and private contracts (access to public road network) as low risk.

iii. Better rates are given to established contractors because they have equipment and labour in place.

iv. Immoveable assets are used for security (occasional use of vehicles to make up shortfall) at 80% of value; it will not lend without security.

v. The bank requires payments to be made directly into a designated account and then checks usage of the account (including suppliers' invoices). It also undertakes physical inspection of the contract using a panel of engineers/valuers.

vi. The payment cycle is the main issue for contractors because if employers do not pay on time that causes problems in contract performance and debt repayment.

vii. Corruption is estimated at 10-15% of contract prices.

viii. A guarantee fund is a good idea as long as there is no charge for participation.

ix. There are equipment hire companies and these should be used to minimize capital requirements of contractors.

x. In cases of contract dispute (which delays payments) there should be a faster arbitration service than currently provided by the Inspector General's Department.

(e) Fina Bank

People met: Chief Executive Officer, Head of Business (SMEs)

Type of Institution: Commercial Bank

Structure and size of Institution: Private bank with 6 branches (Kenyan owned); in Uganda since 2008

Regulated by: BOU

i. The bank regards the road construction industry as being high risk and, therefore, lends very selectively. Cash flow is poor compared to trading businesses.

ii. Road construction is expensive, capital intensive and contractors look to banks for finance. However, businesses often do not have enough collateral to underwrite loans.

iii. Insurance companies do not give financial guarantees nor do they have the capacity, competence or financial strength to deal with the sector.

iv. Equipment costs are high, therefore, regional pool hire is necessary. There are equipment hire companies and they should be supported in some way.

v. Fina Bank is not involved with leasing because of VAT costs (18%) and delays in recovery. However, asset financing is possible with 100% immoveable collateral.

vi. The bank is small and has single borrower limits.

vii. Corruption is estimated to take 20-30% of contract costs.

viii. Where secured loans are given to contractors, advance payments must be made into a designated account. The price (interest rate) charged depends on various factors---character, collateral, loan/loss experience. Performance bonds are charged at 8-12% pa; advance payment guarantees 1-2% per quarter; overdrafts at base rate plus 2 or 3%.

ix. The bank supports MSMEs and 10% of its loan portfolio is to this sector.

x. A guarantee fund would reduce risk, give some comfort to banks and should be administered by the private sector (NOTE: there are different views among the banks on this point) although the BOU would be acceptable (see (k)---the BOU is not interested).

xi. DANIDA operates a revolving trust fund (see (l)) which should be looked at.

(f) Centenary Bank

People met: Chief Manager, Business Growth

Type of Institution: Commercial Bank

Structure and size of Institution: Private Ugandan bank with 40 branches

Regulated by: BOU

i. The road construction industry is low risk if loans are well managed. Criteria used for lending include contract award, collateral, reliability of cash flow, credit history and equipment.

ii. The size of many contracts cannot be supported by collateral (unless large companies), therefore, a guarantee fund would be very helpful.

iii. When the bank lends to contractors for eg advance payments, it requires the funds to be deposited in a designated account. It prefers lending on GoU and donor funded contracts (NOTE: compare with opposite comments by other banks). The GoU is becoming more reliable through better control of commitment accounting. Donors, such as AfDB are becoming less reliable payers.

iv. Rates charged---1-2.5% on bid securities; 1-3% per quarter on performance bonds and advance payments; base rate plus approximately 6% on overdrafts. Collateral required is immoveable assets valued at 100% of forced sale price (say, 75% of market value). The bank also uses corporate guarantees, personal guarantees and floating debentures.

v. New, small, emerging contractors are charged higher rates.

vi. The bank is interested in lending more to the sector but (because it is not listed) relies on funds from depositors rather than long term finance.

vii. DANIDA arrangements and the Agricultural Finance Fund should be looked at (this bank believes that borrowers should not know that a guarantee fund existed).

viii. The bank likes the idea of equipment hire pools (companies in that business do exist and it has some as clients---Multiplex, Omega, Bridges and Buildings, Lexman Engineering).

ix. Leasing is seen as an interesting option because the equipment can be used as collateral, the contractor only needs 10-15% deposit but there is VAT of 18%.

x. It might be worth finding out what tax incentives are available for companies that buy or lease equipment.

(g) Ecobank

People met: Head, Corporate Banking

Type of Institution: Commercial Bank

Structure and size of Institution: Two years in Uganda, listed in Ghana, Nigeria, Ivory Coast etc

Regulated by: BOU

i. The bank has a range of clients in the road construction industry. Risk is not high if the contractor is properly screened; if not, lending becomes high risk.

ii. Loans are given on the basis of a contract award from a reliable employer. Due diligence is taken on the borrower, track record is important.

iii. GoU is no longer a high risk employer (this is an historical issue)---the payment risk has disappeared and UNRA has helped the situation. Donors, on the other hand, are slow payers with too much bureaucracy and sometimes cancel programmes.

iv. Collateral is immoveable assets at forced sale values. Performance bonds and advance payments are given at 0.5% per quarter. Overdrafts cost base rate plus 2 or 3%.

v. **There are issues with UNRA:**

- The “assignment of contract proceeds” agreement with the contractor and notified to UNRA (as the payer) whereby payments are required to be deposited in a designated account is not always followed. Sometimes the contractor persuades UNRA to issue a cheque which he can then deposit wherever he likes. This invalidates the agreement so that UNRA subsequently has no recourse and irritates the lender who does not receive an instalment of the loan repayment (see also (m)i).

- The performance bond is backed by collateral and even as stages of the contract are signed off the full amount of collateral is still held as opposed to being run down in line with the amount of the contract completed. This means the contractor’s collateral is tied up even though work might be, say, 90% complete and he cannot use it to bid for upcoming projects (this might be a procurement rule---interpretation is required).

vi. A guarantee fund is a good idea and should be run by the contractors (!) who would be in a good position to screen potential users.

vii. An equipment hire pool is a good idea because of the high cost of capital equipment; there are already leasing companies in the market place. Ecobank does not have lease arrangements but does provide asset financing (loans).

(h) Orient Bank

People met: Head of Credit

Type of Institution: Commercial Bank

Structure and size of Institution: Medium sized (14 branches) private bank

Regulated by: BOU

i. As the bank is not listed and, therefore, does not have access to long term funds it does not finance large scale (trunk road) projects. It is interested in feeder roads and lending to smaller contractors.

ii. It regards the sector as high risk because of the level of corruption.

iii. The bank feels it has a good relationship with UNRA.

iv. It provides finance for bid securities and advance payments but not performance bonds. Insurance companies provide finance (policies) for performance bonds. Where finance for advance payments is given the bank tries to control how that money is used.

v. The cost of providing bid securities is 1% arrangement fee plus 0.75% per quarter; advance payments cost 1% per quarter. Land and buildings are used as collateral at 75% of the forced sale value.

vi. The bank supports smaller contractors and trusts the vetting done by districts (Gulu is very good).

vii. It only has one or two clients in the supplementary road construction sector.

viii. There is a problem with UNRA because it diverts money from the "assignment of contract proceeds" agreement and this has the effect of stopping the validity of the guarantee (see also (m)i).

ix. The bank is not into leasing but provides overdrafts or loans for purchases of equipment at base rate plus 2-4%. An equipment hire pool is a good idea but the bank would not be involved.

x. There was extended discussion about a guarantee fund around the issue of due diligence on contractors allowed to participate. If the controls were too strict they would eliminate just the contractors who would be most likely to benefit from the scheme. Something along the lines of good track record on contract performance, audited financial statements, good standing with URA might be acceptable (could we require contractors who want to participate to employ members of professional associations of engineers so developing them as well?).

(i) KCB

People met: Head of Corporate Banking

Type of Institution: Commercial Bank

Structure and size of Institution: 14 branches cross listed on all E African exchanges

Regulated by: BOU

i. Bid securities, advance payments and performance bond finance provided to small and medium contractors (the large contractors tend to be self financing).

ii. There are challenges on the revenue side ie cash flow especially with GoU contract although UNRA has improved the situation.

iii. The bank assesses potential borrowers according to performance risk, experience and availability of equipment; a contract from an employer is essential.

iv. Performance bonds and advance payments are charged at 0.35-0.75% per quarter; collateral is taken on land and buildings at 75% of forced sale value. The bank monitors payments to ensure there are no diversions.

v. The relatively new Credit Reference Bureau will help to eliminate bad lending risks in the sector.

vi. There is corruption in the sector and it starts from the bidding process and goes right through to contract completion.

vii. A guarantee fund is a good idea but it should NOT be run by UCICO or MOFPED; the BOU is the best place for it (but see (k) the BOU is not interested). All banks have signed up to the Agricultural Finance Fund and, because risk is shared with the BOU, prices have halved. The fixed rate of interest is 10% plus 0.5% arrangement fee (compared to base rate plus 2-3% and 1% arrangement fee). However, whereas the original agreement was for risk to be shared 50:50 it has now changed to the banks taking 67% and the central bank 33%; this effects the exposure to risk and thus price (also see (k)).

(j) SWICO

People met: Marketing Manager

Type of Institution: Insurance Company

Structure and size of Institution: Unlisted insurance company

Regulated by: Insurance Regulator

i. The company is interested in dealing with the road construction sector but undertakes very, very careful due diligence/risk assessment before taking on a client.

ii. Whether or not it can provide insurance guarantees (policies) depends on the employer because some specify they will only accept bonds from banks (UNRA accepts insurance companies).

iii. Whereas banks ask for cash for performance bonds the insurance company only requires a premium to be paid. Rates charged are as follows:

- Advance payment bonds 2.5%
- Bid bonds 1%
- Performance bonds 1.5-2%

iv. The insurance company will also take collateral (land and buildings) to support the policy, normally at valuation (provided by their own valuer).

(k) BOU

i. This meeting was with the Head of the Agricultural Finance Facility (AFF).

ii. The AFF has two parts:

- UGX 60bn shared 50:50 with the commercial banks
- UGX 90bn shared 33:67 with the commercial banks

iii. The Bank used to have a Development Finance Department to deal with guarantee funds and other arrangements with donors but this was closed in 2006.

iv. The AFF is for the commercialization of the farming sector and used primarily for capital equipment. However, there is limited use (up to 10% of the loan) for working capital necessary to help with shipping costs, customs clearance and so on. The maximum loan is UGX 2.1bn, although in exceptional cases this can be raised to UGX 5bn.

v. The AFF was set up in 2010 and to date there have not been any claims. An Export Credit Guarantee Scheme was in existence and over a 5 year period had only one claim.

vi. It is important that banks participating in the AFF undertake due diligence so as to mitigate the likelihood that claims will be made.

vii. It was recommended that the project should visit the Uganda Development Bank because that now deals with more arrangements of this sort.

viii. It was felt that a guarantee scheme should not be managed by commercial banks because they are interested in profit; some independent arbiter/overseer would be sensible.

ix. There is Memorandum of Understanding and a Participation Agreement between the Bank of Uganda and the commercial banks; a copy might be made available.

(l) DANIDA

i. This meeting was held with the Programme Co-ordinator (Private Sector Support and Development) and was extremely useful.

ii. An AgriBusiness Initiative Trust has been established under the laws of Uganda to provide long term continuity to development support in the agricultural sector. It has an endowment of $30m part of which was provided initially by Danida but has subsequently been increased through contributions from the EU, Belgium, Sweden and USA. In addition, there is programme specific funding provided by a wide range of donors.

iii. It is invested in Treasury Bills and other safe interest bearing deposits so that the income covers management costs and defaults. The TB rate in Uganda is around 10-12% (i.e. below inflation); deposits are made in, say, Stanbic Bank at 10% of which the bank receives 0.25% as an administration fee.

iv. The endowment is lent to MSME in the agricultural sector through 7 or 8 participating banks; so far loans to approximately 7500 MSMEs have been made. Defaults are around 1%, which probably means bank lending is too conservative. Consequently, the fund is growing because income more than covers charges and defaults.

v. Several very useful points were made:

- Business Development Support is important for banks and borrowers so each understands better what they should do (banks know more about agriculture; borrowers prepare business plans etc);
- Do not transfer funds to participating banks; use the fund for investment purposes and as a guarantee for bank lending;
- Experience shows that banks do not pass on lower rates to borrowers. The guarantee, instead, encourages them to lend to customers they might not have lent to before;
-

- The Trust does not involve itself in monitoring each small loan—it relies on the banks due diligence procedures and also reviews default rates. However, for loans above a certain level approval is required from the Trust Credit Committee;
- The borrower should not know there is a guarantee fund in place;
- It is important to have a separate fund manager eg a large audit firm or (in the case of Danida) the ABI;
- Do not use the public sector as a fund manager; UCICO can look after the Government of Uganda's proposed guarantee fund but this should not be mixed with donor money;
- The UBA is not suitable as a fund manager and does not have capacity;
- An independent board is needed for oversight and good governance;
- Commercial banks need to be comfortable with the arrangement and have confidence in the guarantee;
- Corruption is a major problem; a recent PPDSA report showed that 10% of respondents to a questionnaire thought that corruption accounted for 10% or more of contract value and 5% of respondents estimated corruption at more than 20% of contract value.

(m) UDB

People met: Director, Development Finance and Senior Trade Finance Officer

Type of Institution: Development Bank established by the GoU in 1972

Structure and size of Institution: Public sector bank

Regulated by: MOFPED

i. The UDB explained its lending policies to contractors. The examples below assume that the contractor does not have an existing "facility" (overdraft/borrowing) arrangement with the bank and that the bank has undertaken its due diligence procedures. Assume contract value is $100,000.

- BID SECURITY (BS): This will be 1% ie $1,000 will have to be deposited in cash margin account by the contractor (if cash is not available it can be borrowed at normal rates of interest, around 19%). The BS attracts an arrangement fee of 2% and interest of 0.45% per quarter.
-

- PERFORMANCE BOND (PB): This will be 10% ie $10,000 will have to be deposited in cash margin account by the contractor (if cash is not available it can be borrowed at normal rates of interest, around 19%). The PB attracts an arrangement fee of 2% and interest of 0.45% per quarter.
- ADVANCE PAYMENT GUARANTEE (APG): This will be 20% ie $20,000 will have to be deposited in cash margin account by the contractor (if cash is not available it can be borrowed at normal rates of interest, around 19%). The APG attracts an arrangement fee of 2% and 0.45% interest per quarter. The bank will enter into a **legally binding** tripartite agreement involving the employer and the contractor that requires "an assignment of contract proceeds" whereby payments from the employer are paid into a designated bank account. If the employer fails to comply with this agreement then the bank has legal recourse against it. Advance payments (not guarantees) are charged at 19% rebated over time to 15% if the contractor proves to be reliable (for US$ APG the rate is 12% rebated to 9%).

ii. Where the bank takes security it is a maximum of 40% on moveable property and 5/6 of the forced sale value of immoveable property (ie building with market value of 100,00 might have forced sale value of 60,000 and collateral value x 5/6 = 50,000).

iii. The bank does not have any experience of managing guarantee funds but has been involved extensively with syndication/participation arrangements with the Kuwait Fund, Islamic Development Bank, African Development Bank, Arab Bank for Economic Development in Africa.

iv. It does not have any asset leasing products---only DFCU and Stanbic.

(n) Ernst & Young

i. This meeting was with Executive Director (Advisory Services), Executive Director (Tax) and Manager (Assurance).

ii. There are 4 resident and 2 non-resident partners and 120 staff, many of whom are qualified. Ranking of the big 4 firms is PWC, EY, KPMG, DT.

iii. Guarantee funds are not common in Uganda and EY does not have experience of managing any. However, it is auditor of the BOU and, therefore, audits the AFF. It also has experience with the multilateral Global Fund for HIV and malaria.

iv. If the firm managed a guarantee fund the fee would depend on the complexity, volume of work and size of the fund. Minimum audit fee for clients is $10,000 ie it does not take on MSME. It deals with large contractors and has no experience of defaults.

v. There are only two banks involved with leasing—Stanbic and DFCU.

vi. VAT registration threshold is UGX 50m ($22,000). Civil engineering (roads, bridges etc) is an exempt supply which means the contractor does not invoice VAT to the employer or claim it back on expenses. This means expenses + 18% must be recouped in the contract price.

vii. The tax regime does not encourage investment either by purchase or lease of capital investment by contractors because the VAT payment in both types of transaction is not reclaimable. If civil engineering was standard or zero rated the situation would be different.

Investment in machinery does attract capital allowances. There is an Initial Allowance of 50-75% depending on the location and then a capital allowance of 20% (depends on class of plant and machinery) on a reducing balance basis (both allowances in year 1).

(o) EADB

People met: Country Manager (Uganda), Finance Manager, Finance Specialist

Type of Institution: Development Bank established by the East African Development Community 1967/re-established 1980

Structure and size of Institution: Owned by Governments of Kenya, Rwanda, Tanzania, Uganda with several minority shareholders (AfDB, FMO, Standard Chartered Bank, Barclays Bank etc).

Regulated by: Governing Council (Ministers of Finance), Board of Directors (Permanent Secretaries, minority shareholders, private sector).

i. The bank provides development interventions in the form of loans, lease finance, short term equity participation and trade finance.

ii. It has some experience of finance leases for the construction sector (Spencon and Roko). It has provided finance of $1m but would not consider anything below $100,000. Assets are registered in the name of EADB and the lessee has the option to purchase for a nominal sum at the end of the lease. Normally, equipment leased is second hand and for a period of three years. The bank undertakes site inspections to monitor usage of equipment.

iii. Significant issues in the construction sector are:

- High level of corruption;
- Lack of qualified engineers even in firms that win construction contracts;
- Poor payment patterns by employers including the Government of Uganda (UNRA has improved the situation).

iv. EADB thinks it is the payment situation on contracts that deters financial institutions from offering lease products.

v. The bank has experienced low default rates perhaps because of good due diligence and conservative lending.

vi. EADB would be interested in participating in the CGF. At the moment it does not offer performance bonds (the only application received was rejected for due diligence reasons).

vii. It is also interested in the equipment pool companies but would need to know more about the form of participation. Both loans and equity participation would be possible. In the latter case the bank would want to sell its interest after five or six years.

APPENDIX D

MICROFINANCE REPORT

Microfinance Report

Creating Opportunities for Sustainable Spending on Roads in Uganda

Microfinance Specialist

June 2011

Table of Contents

1. INTRODUCTION

1.1 This report by the Microfinance STE should be read in conjunction with the report of the Finance STE.

1.2 The report is based on the Terms of Reference (ToR) for the mission attached as Appendix 1 and informed by:

- CrossRoads 2009-2014 Project Document
- Policy for Development and Strengthening the National Construction Industry, MOWT 2010, *("the policy")*
- Meetings held with various stakeholders in the roads sector
- DFID's "Making Market Systems Work Better for the Poor" (M4P) handbook

1.3 The work of the Microfinance Specialist is derived from Output 3 of the original project document (now part of new Output 2) which requires:

"Improved access by construction companies to complementary markets, including for finance and equipment hire"

It should be emphasized that, during the mission, the focus has been on identifying market-driven, efficient, cost effective and sustainable options for dealing with access to finance and equipment hire that can be located in the private sector.

1.4 *The National Construction Industry Policy* reinforces and provides relevant background for the objectives set out in Output 2. For example:

- Facilitate local contractors and consultants access to construction equipment, credit and work
- Establish a Plant Hire Pool
- Review tender conditions and allow advance payments up to a maximum of 30%
- Review requirements for bid securities, advance payment guarantees and performance bonds
- Establish a Construction Guarantee Fund….to assist contractors and consultants to obtain bid securities, performance bonds and advance payment guarantees

- The Government of Uganda will provide Ushs 500m (£150,000) to start up the Construction Guarantee Fund
- Ensure prompt payment to contractors and consultants in order to improve their cash flow

1.5 The ToR for this mission can be summarised as follows:

i) *To establish how the local construction industry is viewed by banks and financial institutions;*
j) *To ascertain the ease (or difficulty) with which supplementary players in the industry can obtain finance;*
k) *Propose methods for assisting the industry as a whole to gain better access to credit facilities;*
l) *Identify key institutions, groups and individuals who can be encouraged to have some future involvement or interest in the CrossRoads programme;*
m) *Examine the position with regard to bonds, sureties and guarantees;*
n) *Propose ways of reducing the collateral burden on contractors;*
o) *Investigate options for offering partial cover in the event of default on bonds;*
p) *Identify areas of risk to the CrossRoads programme in respect of finance and credit and propose mitigating measures.*

1.6 The ToR for both the Finance Specialist and the Microfinance Specialist overlap. The Mission Report of the Finance Specialist addressed the ToR from the perspective of the commercial banks. This Mission Report addresses the ToR from the perspective of the Microfinance agencies.

1.7 Meetings were held with a range of interested parties in order to obtain a better understanding of current market conditions, to examine the different perceptions and perspectives of those actively involved with the road construction sector and to seek opinions on the most effective and reliable way forward for implementing the objectives of the project and, specifically, Output 2. Notes of meetings are attached as Appendix 4. The meetings included:

- Public Sector

- East African Development Bank (EADB) –in conjunction with finance STE
- Pride Micro Finance
- Microfinance Support Centre. (Wholesaler)

- Private Sector

- Fina Bank –in conjunction with finance STE
- Finance Trust
- FINCA
- Stromme Micro Finance EA Ltd (Wholesaler)

1.8 The M4P approach which will be used in the implementation of Crossroads seeks to facilitate market transformations in the road construction and maintenance sector. Interventions will focus on:

- Supporting actors to collaborate for mutual benefit;
- Supporting financial institutions, equipment hire companies and business development services (BDS) providers to efficiently deliver cost effective products and services to contractors;
- Building strong stakeholder pressure groups to engage with government and lobby and advocate for a more enabling policy and regulatory environment in the roads sector.

1.9 These changes in the market system will lead to more competitive markets and improvements in the road network at lower cost to the Government of Uganda and consequent economic benefits to the country, especially for poor and disadvantaged groups.

1.10 This means that work undertaken during this mission considered and prioritized the following:

- Issues relating to failures in the market by developing better and more affordable mechanisms for reducing and managing risk;
- Recalibration of relationships within the market;
- The importance of developing better linkages and relationships among market actors;
- The value of encouraging greater private sector participation.

2. SUMMARY OF FINDINGS RELATING TO THE ToR

2.1 This section summarises the findings for each of the items referred to in paragraph 1.4. More comprehensive discussion on each of these items is contained within subsequent sections and appendices of this report.

2.2 Dealing with each in turn:

(i) To establish how the local construction industry is viewed by banks and financial institutions

There is little, if any, experience of dealing with the local construction industry among Microfinance agencies. What views there are of the road construction industry are likely to be personal and/or anecdotal. Common views heard were: big ticket/ high cost, over our level, risky.

(j) To ascertain the ease (or difficulty) with which supplementary players in the industry can obtain finance

As there was little, if any, experience in dealing with the sector no strong views were expressed one way or the other about supplementary players.

(k) Propose methods for assisting the industry as a whole to gain better access to credit facilities

There are a range of strategies that can be adopted to improve access to finance.

- Developing tailored MF products for the smaller MSME contractors, for example for purchase of a set of tools and equipment; for basic working capital to cover initial time lag between payment of wages to workers and receipt of monies from the employer authority.
- Tailoring MF products in alignment with Labour Based Contracts (LBC) in conjunction with Community Based Organisations (CBO)
- Examining the setting up by employer authorities of Scheme Implementation Committee (SIC)/Ward Development Committee (WDC)/ Labour Contracting Society (LBC) contract structures (see sample contract in appendix), Local Government Engineering Dept (LGED) contracts or similar locally based community based organisations for local and district road maintenance and improvements along similar lines to those in Bangladesh and aligning MF products for marketing to MSME contractors with these contracts.
- Developing separate more favourable bonding terms for MF financed small contracts
- Designing suitable collateral conditions for the MSME contractor, for example a lien over tools and equipment; loan repayments to be deducted at source by the employer authority and paid directly to the MF institution.

- Changing contract structure so that work can be signed off and handed over to the employer in stages thereby releasing collateral;
- Amending performance bond conditions so that some collateral is released as work is certified;
- Ensuring payments are deposited in designated accounts so reducing lenders' risk;
- Using the CGF to underwrite loans to marginal contractors and more MSMEs;
- Create a more vibrant environment for leasing of equipment, including commercial plant hire pools across the country;
- Employers to accept insurance company policies, as well as bank instruments, for performance bonds;
- Amend tax rules so that both purchase and leasing of equipment is more attractive.

(l) Identify key institutions, groups and individuals who can be encouraged to have some future involvement or interest in the CrossRoads programme

Meetings were held with a number of micro financial institutions but time constraints meant it was not possible to meet with all 90 members of the Association of Micro Finance Institutions of Uganda (AMFIU). All MF institutions which were met with expressed interest in the CrossRoads programme. The AMFIU is the umbrella association for micro finance institutions in Uganda and the Executive Director has indicated that suitable products could be developed and marketed to the smaller contractors. See Notes of Meetings in the appendix to this Mission Report for more details.

(m)Examine the position with regard to bonds, sureties and guarantees

This issue has also been covered in the item above relating to better access to credit facilities. While bonds, sureties and guarantees are not currently part of the portfolio of products offered by MF institutions it may be possible for MF institutions which form part of the proposed CGF to develop suitably tailored bonding arrangements with fairly nominal terms for the smaller local MSME contractors and to align these with LBCs.

(n) Propose ways of reducing the collateral burden on contractors

This issue has also been covered in the item above relating to better access to credit facilities. MFI products need to be closely tailored to the terms of Labour Based Contracts and aligned with the capital requirements of such contracts, both for assets and working capital. A CGF would share risks with lenders and reduce collateral requirements. Employers could be encouraged to discharge bonds (and, therefore, collateral) more quickly.

(o) Investigate options for offering partial cover in the event of default on bonds

Information received suggests that defaults are low. If MSME are to be encouraged to enter and prosper in the road construction industry then loans made or bonds written might be more risky. However, a CGF would be a good way in which to offer partial cover against default. MFIs should be strongly encouraged to participate in the proposed CGF.

(p) Identify areas of risk to the CrossRoads programme in respect of finance and credit and propose mitigating measures

The establishment of a CGF presents risk in terms of timing, impact, lending strategy and level of default. These risks would be mitigated if the CGF could join a scheme that had already overcome these issues. This would then enable the CrossRoads programme to focus on the use and impact of the CGF from an early stage.

3. ACCESS TO FINANCE ISSUES

3.1 Road construction contractors need finance for bid securities, performance guarantees and advance payment guarantees. However, for the most part, the largest contractors are self financing in that they have access to internal finance or else have their own arrangements with commercial banks. Thus, it is the micro, small and medium (MSME) size contractors that are of most interest.

3.2 The project document states that “small firms find it difficult to obtain sufficient title to property and cash and so cannot raise finance to increase productivity and grow their businesses”.

3.3 In the case of the MFIs there is no track record or experience in financing of road construction or maintenance projects.

3.4 Comments made in the Mission Report by the Finance STE with regard to bonds, overdraft facilities, risk profile of employer authorities and levels of

3.5 Corruption within the road construction sector should be borne in mind when considering the way forward and development for the MFI financed MSMEs.

3.6 Access to finance for MSMEs is a major problem for the reasons outlined in the Mission Report of the Finance STE. In addition to the factors therein listed, access to finance for the smaller MSME contractor through the MFI route is not currently possible due to the absence of any products and experience of dealing with the sector in the MFIs.

3.7 There were many positive comments heard during the course of the interviews with representatives of the MFIs. These included:

3.7.1 If the CGF comes into being this would encourage the entry of supplementary players in upstream industries such as equipment and materials.

3.7.2 "We will go that route" towards developing products for the MSME sector of the construction/contracting business.

3.7.3 Our mission is to provide financial services to the world's lowest-income entrepreneurs so they can create jobs build assets and improve their standard of living.

3.7.4 Good due diligence and monitoring would be a very important aspect of lending to MSMEs in the contracting business. This would include qualifications & certification, evidence of track record, monitoring of expenditure against contract value and having basic projections.

3.7.5 We have an appetite to attract SMEs and have been reviewing opportunities in this sector for the past six months.

3.7.6 It is a very beautiful idea (CrossRoads MF possibilities).

3.7.7 The planned meeting of Bankers and Contractors in August will serve to explain and provide greater understanding of the business opportunities of the programme. In the meantime a concept paper would be useful to the preparation of a suitable product.

3.7.8 One of the biggest problems was the restrictions imposed by City Councils on community involvement in roads maintenance. Councils will not allow community based organisations (CBO) to take responsibility for their own roads.

3.7.9 Local contractors /CBO contractors would need operative training.

4. ACCESS TO EQUIPMENT

4.1 The comments made in section 4 of the Mission Report of the Finance STE apply here also but as mentioned above in 3.3 in this report, in the case of the MFIs there is no track record or experience in financing of road construction or maintenance projects and nor is there any history or experience in financing the necessary tools and equipment for such projects.

4.2 In the case of LBC and similar contracts however the scale and value of the necessary tools and equipment is much more modest. Typically, LBC contractors are required to have their own basic tools and equipment such as hoes, machetes, shovels, wheelbarrow and such like, estimated cost Ush200k to Ush500k.

4.3 Ideally tools and equipment should be purchased from the LBC contractors own resources. However if this is not possible MFIs may be able to offer some suitable loan products with a term of say 6-12 months with loan repayments being deducted at source by the employer authority and paid over directly to the MFI.

5. IMPROVING ACCESS TO FINANCE

5.6 Many of the comments and suggestions made in section 5 of the Mission Report of the Finance STE are also applicable when looking at microfinance issues.

5.7 Specifically, however, as regards the microfinance sector a start can be made by designing and marketing specific tailor-made products for CBOs/LCS/LBCs for the maintenance and small improvements to local gravel and feeder roads along the lines of the Community Participation/Lengthmen approach. A number of the people in banks/microfinance institutions and others mentioned this approach as a possible way forward. Many potential variations in structure on these type of contracts seem possible and similarly therefore also in the design of suitable and appropriate microfinance products.

5.8 MF products need to be geared to the size, scale and components of the different types of contracts. Starting with a very basic Labour Based Contract for maintenance of say 10Km with a price of say Ush72k per km, contract value Ush720k, with 5 men for 10 days. The contractor is required to have certain tools and equipment such as wheelbarrow, machetes, hoes, shovels, boots etc. Assume cost for such equipment of say Ush200k. Assume also contractor will wait 6 weeks for payment from employer authority and that contractor has continuation contracts following on and assume 10% margin on contract. Contractor therefore requires initial asset finance of Ush200k plus working capital to finance wages for 6 weeks of Ush2m. In the absence of the MSME contractor having the resources to finance this purchase the MF will need to have an asset finance product to lend the Ush200k for say 6-12 months, with the tools and equipment as collateral and an initial working capital product facility of say Ush2m with repayments deducted by the employer and remitted directly to the MF over say three months. With appropriately designed computer software at both the employer authority and the MFI it should be possible to manage both the contracting process and the loan/repayment process.

5.9 It may be the case that loans of the order indicated in 3.4 above exceed the maximum limits of the MF. In this case perhaps some syndication of such loans could take place.

5.10 Given the relatively short term nature of these loans and the collateral/direct repayment provisions suggested above, interest rates should reflect the relatively low nature of the risk.

5.11 Once a successful MF product is in place the MF industry can then move on to design similar but more complex products to cater for the next level of contract such as Community Based Organisations, Labour Contracting Society, Local Government Engineering Dept contracts etc and so on up the contracting scale. In this way the MF industry can stay aligned with the growth in size/scale of its entrepreneurial contractors. This in turn will create more deposits for the MF provider, as well as creating more wealth in the local community, which is the epitome of the market driven approach.

5.12 The involvement of the MFIs and the community will create a sense of accountability and ownership of the maintenance and improvement to roads process. In other words-“For the Good of The Community” applies. “Road users and roadside communities have a great deal of knowledge about their roads. Those responsible for road maintenance have the technical knowledge but probably not in depth local knowledge of the roads." (*Community Participation Approach for Road Maintenance in Uganda, Leyland and others.)*

5.13 In order to facilitate the introduction of the kind of access to finance envisaged above and in the recommendations made by the Finance STE, a programme of sensitizing, education and training will be required.

5.14 The key to the way forward is to get the local authorities involved and to educate and sensitize them to the proposals for local community participation in road maintenance and improvements in their own areas. It would therefore be necessary to get UNRA and the Ministry of Local Government to the table and build an education/sensitization programme to bring the ideas proposed to such as the district engineers.

5.15 A study tour to Bangladesh to see that country's experience of community participation in road projects, and in particular the work of the LGED, should also form part of the sensitization process. Estimated cost of study tour based on flights, accommodation and meals for six people is $25,000.

5.16 The benefits of this study tour, in addition to being part of the sensitizing process, will be to get a full understanding of the structure and organisation of the LGED and how it manages the participation of the local community in the improvements and maintenance of local infrastructural road assets. An outline of the work of the LGED is contained in Appendix 5 of this report.

6 MANAGEMENT OF A CGF

6.1 The comments made in section 6 of the Mission Report by the Finance STE should be borne in mind in reference to the Microfinance sector. This particularly refers to sections 6.2 and 6.3 of that report.

6.2 From discussions with a number of MFIs it is clear that the existence of a CGF could have a significant influence in providing easier access to finance for MSMEs and therefore act as a significant factor in promoting the growth of the MFIs and indeed indirectly contributing to the improvement in the wealth of local communities.

7 ACCESS TO THE CGF

7.1 The comments made in section 7 of the Mission Report by the Finance STE should be borne in mind in reference to the Microfinance sector. This particularly refers to sections 7.1of that report.

7.2 The table headed Financial Institutions Performance Summary 2010 contained in Appendix 2 to this report provides some indication of the relevant size of the various commercial banks and MFIs in Uganda and may assist in assessing the potential participating institutions of the CGF.

8 EQUIPMENT HIRE POOL

8.1 The comments made in section 8 of the Mission Report by the Finance STE should be borne in mind in reference to the Microfinance sector.

9 BUSINESS DEVELOPMENT SERVICES (BDS)

9.1 The comments made in section 8 of the Mission Report by the Finance STE should be borne in mind in reference to the Microfinance sector.

9.2 In addition, the comments made earlier in sections 5.8, 5.9 and 5.10 above are again drawn to the reader's attention.

9.3 The ToR for the Microfinance/Finance STE makes no specific reference to training. However paragraph 26 of the Policy Document states: *CrossRoads will also help train commercial bank staff in carrying out financial appraisals of construction companies and provide technical assistance to new banks willing to develop leasing services for the industry. Greater access to leasing will help to develop the equipment hire market. In addition, CrossRoads will work with equipment suppliers and the few hire companies that exist at present to develop better business models for hiring equipment aimed at smaller firms. Of the £3 million budget, up to £2.0 million is to manage a challenge fund (i.e.to holding competitions to award risk sharing grants for innovative projects) including by providing appropriate training and support for successful bidders, and at least £1.0 million is to be used as partial loan guarantees.*

9.4 Preliminary discussions were held with three training companies with regard to possible future training needs of the CrossRoads programme.

Four companies were recommended for initial interview: Friends Consult; Kisaka; Kronos Consulting Group; and Aclaim Africa Ltd. Notes on these meetings are contained in the appendix to this report. Friends Consult subsequently submitted a Concept Note outlining possible training proposals. A copy of this Concept Note is included as appendix 4 in this report. The representative of the fourth company, Kronos Consulting Group could not be contacted.

9.5 A further training company, Mt Elgon Labour Based Training Centre (MELBTC) has since come to attention and is known to the Training Specialist on the CrossRoads Programme.

9.6 Both Friends Consult and Aclaim Africa seemed competent to deliver the required training. Friends Consult was commended by the representatives of ABIT. Aclaim Africa appeared to have in-house resources, experience, capacity and an in depth knowledge of the Commercial Banks/MFI and contracting sectors and is recommended as first choice, with Friends Consult as second choice, for management and executive training. However MELBTC may also have a significant role to play in the training of small contractors in the running of Labour Based and similar contracts.

9.7 Training to be delivered by the Crossroads finance and team members will be by way of Training the Trainers. The then trained trainers will undertake training programmes to deliver the required training to the various different groups.

9.8 Training Required

9.8.1 Training of the staff of the commercial banks on the processes and special nature of the construction contracting business. This includes understanding:

- the tendering/bidding process,
- the awarding of contracts,
- the bonding requirements,
- the procurement processes,
- the mobilisation and construction stages,
- the certification of completion process,

- the progress payments and the payment stages
- the retention and release of funds process.

9.8.2 Training must also include the understanding of the financial statements of construction contractors, their accounting policies with regard to accounting for revenues and assets and for booking of profits and losses, all of which have their complexities.

9.8.3 Separate training for the staff of the MFIs on the processes and special nature of the construction contracting business but perhaps at a lower level than that for the commercial banks. This training should provide an overview of the processes listed at 9.8.1 above but concentrate more on the Labour Based and similar contracts.

9.8.4 As with the training for the commercial banks, training must also include the understanding of the financial statements of smaller construction contractors, their accounting policies with regard to accounting for revenues and assets and for booking of profits and losses, all of which may have their own complexities depending on the size and level of the contracts.

9.8.5 Training for construction contractors and their staff. The nature of the training to be provided would depend on the level of the businesses whether large, medium or small but should cover:

- Understanding the construction processes as listed at 9.8.1 above;
- Understanding the different forms of contracts.
- Understanding Finance/Financial for Non-Financial Managers for Owners/Directors/Executives
- Understanding accounting policies which are unique to construction contracting
- Preparing and submitting applications for finance to banks/MFIs
- Managing revenues and costs during implementation of contracts
-

- Preparing budgets, management and statutory financial statements for construction contractors.
- Accounting for Labour Based Contractors.

10 RECOMMENDATIONS

10.1 The nine recommendations made in section 10 of the Mission Report by the Finance STE are also of relevance to the microfinance sector. In addition the following recommendations are made in the context of the microfinance sector:

10.2 MFIs should be encouraged and assisted to develop tailored MF products for smaller MSME contractors and to align these products with LBCs in conjunction with CBOs and to provide similarly tailored more complex products to cater for these contractors as they grow their businesses.

10.3 Encourage employer authorities including UNRA and Ministry of Local Government to develop contracting arrangements along the lines of those used in Bangladesh for roads maintenance and improvements by CBOs/SICs/WDCs/LGE

10.4 Encourage and assist MFIs to develop separate more favourable bonding terms for MF financed small contracts where necessary.

10.5 Encourage and assist MFIs to develop suitable collateral conditions for the MSME contractor.

10.6 Encourage and assist MFIs to develop suitable products for financing basic asset acquisitions by LBC and CBO contractors, e.g. stocks of tools and equipment, building up gradually to larger items of equipment.

10.7 Encourage and assist MFIs and Employer Authorities to work together to develop IT and administrative systems to allow employers to deduct loan repayments due to MFIs from contract payments and passed over to the MFIs.

10.8 Plan and arrange study tour to Bangladesh for representatives of UNRA, Ministry of Local Government officials and MFIs/AMFIU.

10.9 Re-interview Aclaim Africa and Friends Consult, using the training requirements set out in 9.7 and 9.8 above as the basis for interview, with a view to their selection as first and second choice trainers respectively.

11 ACTION POINTS

11.1 The action points listed in section 11 of the Mission Report by the Finance STE are also of relevance to the microfinance sector. In addition the following action points are listed in the context of the microfinance sector:

11.2 Invite representatives of UNRA and the Ministry of Local Government to a discussion forum on ways to involve community participation in the maintenance and improvements to local gravel and feeder roads and to develop contracting arrangements along the lines of those used in Bangladesh for roads maintenance and improvements by CBOs/SICs/WDCs/LGE. The recent budget provisions for increased spending on roads could be the catalyst for this forum.

11.3 Arrange a study tour for 10 UNRA and Ministry of local Government representatives plus 2 CrossRoads team members to Bangladesh to view and learn from that country’s experience with local community participation in roads maintenance programmes. Estimated cost of study tour: US$42,000.

11.4 Have discussions with AMFIU on ways to encourage and assist MFIs to develop tailored MF products for the smaller MSME contractors, separate bonding terms for MF financed small contracts, and products for financing basic asset acquisitions by LBC/CBO contractors.

11.5 Invite representatives of the MFIs/AMFIU and UNRA/Ministry of Local Government to discuss jointly developing IT and administrative systems to allow employers to deduct loan repayments due to MFIs from contract payments and for these to be passed over to the MFIs.

11.6 Select training organisation to undertake Train the Trainers programme by the CrossRoads finance and other team members in line with recommendation 10.9 above.

11.7 Undertake delivery of the Train the Trainers programme. The estimated cost to train six trainers with two CrossRoads finance trainers plus two others over 5 days is US$5,000 including meeting room at Golf Course Hotel, stationery, meals and refreshments and excluding the costs of CrossRoads team members. Manage delivery of training programme for banks, microfinance institutions and contractors. Assuming three representatives from each of 15 banks, 5 MFIs and 300 contractors with 20 people per each three day course and a cost per training day of US$750, total estimated cost is US$120,000.

APPENDIXES

Appendix 1

CROSSROADS Programme

Terms of Reference for Microfinance/Finance Specialist

Introduction

Creating Opportunities for Sustainable Spending on Roads (CrossRoads) is a four-year programme jointly funded by DFID and the European Union. The **goal** of the programme is **to improve the quality of the road network in Uganda**. The **purpose** of the programme is **to improve effectiveness of Government of Uganda expenditure on roads**. The programme is expected to deliver four **outputs**, namely:

Output 1: Public institutions better able to manage road network, including by promoting road safety.

Output: Policy and institutional reform helps set appropriate rules of the game for a competitive road construction industry.

Output 3: Improved access by construction companies to complementary markets for finance and equipment hire.

Output 4: Increased capability and competition in the roads construction sector.

This document describes the objectives and activities required of the Microfinance/Finance short term expert (STE) in providing specialist input to the newly established CrossRoads Programme Secretariat, currently being set up by WSP imc in Kampala, Uganda.

Key Tasks

The services of the Microfinance/Financial Specialist are required to conduct an assessment and prepare a report on how **Output 3** can be effectively addressed by CrossRoads during three and half years of project implementation.

The Microfinance/Finance expert's main assignment objective is to investigate ways of improving the domestic road construction industry's access to finance. This is not restricted to contractors, but increasing lending and facilitating an improved cash flow to construction companies does form a significant part of the assignment. In particular, the STE will review options already put forward for the creation of a Construction Guarantee Fund. Microfinance aspects will entail the preparation of proposals on how to encourage smaller players to enter the market; for those SME's (small and medium enterprises) already in existence, develop criteria to assist their development.

The STE shall co-ordinate his activities through the Team Leader (David Entwistle) and Market Systems Development Specialist (Alex Mugova) in the development of his modus operandi for achieving his assignment objectives during the inception period of the CrossRoads Programme. Specifically, the services will include the following tasks:

i). To establish how the local construction industry is viewed by banks and financial institutions; is it viewed as a ‘high-risk’ industry? Do banks restrict their lending to established companies? How easy is it for smaller/emerging contractors to obtain finance? Prepare proposals on how the Programme may be able to encourage financial institutions to support SMEs and emerging companies.

ii). To ascertain the ease (or difficulty) with which investors/supplementary players in the industry can obtain finance. For example, can an organisation get finance to start up a pipe making company or to set up a commercial materials testing laboratory?

iii). Propose methods for assisting the industry as a whole to gain better access to credit facilities, for example, to expand their businesses. Are there financial institutions other than banks that have a role to play in improving lines of credit to the construction industry?

iv). Identify key institutions, groups and individuals who can be encouraged to have some future involvement or interest in the CrossRoads Programme and its constituent interventions insofar as finance is concerned.

v). Currently contractors have to obtain bonds, sureties or guarantees for performance bonds and advance payment guarantees. In addition they have retention deducted from each monthly certificate which is often as much as 10%. Performance bonds are normally demanded for 10% of the contract sum. Advance payments up to 25% of the contract sum can be given to the contractor to assist his cash flow but he often has to lodge collateral of the full amount of the guarantee to secure these bonds/guarantees from a financial institution.

vi). Propose ways of reducing this collateral burden on contractors. One idea is to set up a Construction Guarantee Fund to support contractors to get bonds more easily. Review the work carried out in Uganda as to how this Fund could be operated, by whom, and give an indication of the funds required to start up and run this Fund.

vii). The STE should also investigate options for offering partial cover in the event of default on bonds in order to overcome the perceived reluctance of banks to lend to emerging companies.

viii). To identify areas of risk to the CrossRoads Programme in respect of finance and credit and propose mitigating measures where appropriate.

Timing and Inputs

It is envisaged that these initial investigations and proposals will take approximately 20 working days to complete, to be undertaken before the end of May 2011. The scope and duration of this assignment, however, may be adjusted according to circumstance by mutual agreement.

Close co-operation with the Team Leader will be required throughout this assignment. It is expected that the STE will arrange and conduct numerous meetings with financial institutions in order to fulfil their tasks.

This assignment will be carried out in Kampala, Uganda.

Deliverables

The aim of this assignment is to contribute to the final inception report, due in June 2011, in terms of formulating suggestions as to how local road construction companies can best be supported by financial institutions. Concise, but detailed, briefing notes should be provided for each of the tasks outlined above and in particular the consultant shall prepare proposals for a construction guarantee fund and/or a construction bank. A draft report of the STE's findings is to be submitted three days before the final day of the assignment. Following discussions with the Team Leader the STE will compile a final report before departing Uganda.

Appendix 2

FINANCIAL INSTITUTIONS PERFORMANCE SUMMARY 2010

		Financial Institution	Total Assets USHb		Customer Deposits (USHb)		Loan Advances (USHb)		Profit/Loss after tax (USHb)	
			2010	2009	2010	2009	2010	2009	2010	2009
CB	1	Stanbic Bank	2400.00	1880.00	1837.00	1459.00	1199.00	927.40	72.080	95.300
CB	2	Standard Chartered	1807.00	1242.00	1208.60	780.10	864.40	572.90	73.020	74.800
CB	3	Barclays	1143.70	996.90	886.70	726.90	495.83	524.70	9.720	-4.687
CB	4	Centenary Bank	807.20	582.70	630.80	443.40	395.80	343.10	29.390	23.480
CB	5	DFCU Development Finance ? Uganda	802.00	608.00	376.00	346.60	397.00	323.60	23.300	19.200
CB	6	Crane Bank	783.61	531.50	580.17	418.80	410.59	240.40	51.580	32.050
CB	7	CITIbank	661.88	479.60	403.22	293.20	187.25	92.30	26.280	25.230
CB	8	Bank of Baroda	496.66	386.50	339.55	271.70	226.30	150.10	29.390	16.700
CB	9	Orient	361.90	262.40	289.90	199.60	199.30	122.80	9.166	8.676
CB	10	Housing Finance Bank	360.11	259.30	166.95	109.40	245.28	180.60	3.141	5.004
CB	11	Bank of Africa	297.90	223.70	220.60	159.80	155.29	115.80	3.650	3.321
CB	12	DTB Diamond Trust Bank	292.00	208.10	242.00	176.00	162.00	118.60	6.000	1.164
CB	13	Tropical Bank	249.15	203.30	127.92	106.30	55.04	55.29	5.649	2.983
CB	14	Equity Bank	204.77	154.70	138.88	71.57	136.22	82.81	-22.900	-6.255
CB	15	KCB	177.40	115.70	151.70	69.18	66.10	47.23	-11.390	-11.350
CB	16	Post Bank	107.74	77.68	90.22	63.31	49.59	38.99	0.920	-0.167
CB	17	Ecobank	90.80	63.49	68.00	45.54	46.30	23.48	-6.000	-11.260
MB	18	Pride Microfinance Ltd	79.61	66.08	24.78	13.77	58.61	47.81	2.844	2.353
CB	19	Cairo International Bank	77.89	62.24	61.66	48.67	27.54	25.36	0.856	1.422
CB	20	UBA	72.38	76.51	50.19	66.55	24.90	10.44	-6.589	-9.675
CB	21	Fina Bank	64.20	30.85	47.10	18.48	31.80	11.65	-3.880	-3.579
MB	22	Finance Trust	50.05	37.38	22.02	13.82	33.90	27.54	0.604	1.150
CB	23	Global Trust	49.96	40.27	34.68	24.56	27.83	14.92	-6.846	-20.320
MB	24	FINCA	39.86	33.37	15.11	8.91	28.97	23.79	0.210	1.144
	25	Opportunity	32.32	19.93	6.47	0.55	21.71	11.32	-0.343	-0.284
	26	National Bank of Commerce	24.66	22.79	11.52	9.58	8.20	7.70	-0.981	0.852
	27	MCBL	17.25	8.91	12.70	5.84	6.64	3.81	0.256	0.197
	28	abc Capital Bank	12.66	9.70	6.77	4.55	3.19	2.06	-0.690	-0.032

Appendix 3

Notes on Meetings with Microfinance Institutions, Training Organisations and Others.

Date: Monday 30 May 2011 (Meeting attended in conjunction with Finance STE)

FINA Bank (U) Ltd

People met:

Charles W. Nalyaali, CEO charles@finabank.com +256 414 233 824

Charles W. Nalyaali has joined Fina bank as a CEO; he is a Former Managing Director of Equity Bank Uganda Limited, Co-founder and Chief Executive Officer of Uganda Microfinance Limited (MDI) and Chief Bank Examiner at the Bank of Uganda. Holder of a Master degree in Sustainable International Development from Brandeis University, Waltham – USA and a Bachelors of Commerce degree from Makerere University. Conducted, facilitated and attended many seminars and workshops in Banking and Finance both locally and internationally. Energetic person with passion for work and highly motivated by performance.

Lawrence Ssentonga, Head of Business-MSMS Lawrence.ssentongo@finabank.com

+256 414 237 284

Lawrence Ssentonga joined the bank in August 2010 from Equity Bank Uganda Limited. He has a wealth of banking experience in the areas of Business development, credit and management over 10 years. He holds an MA in Development Studies from Nkozi University.
Fina Bank (Uganda) www.finabank.com/ug/home is the third and latest foray into the East Africa region, having setup operations in Rwanda in 2004. This is all part of an expansion strategy that seeks to ensure that we become the regional SME Bank of choice.

Fina Bank launched its operations in Uganda in October 2008 marking the continued growth and expansion of the Group. The bank initially started operations in the capital, Kampala, with two branches: the Buganda Road branch and the Nakivubo branch. Its focus in 2009 is to open up a further three branches thereby increasing its branch presence to five branches countrywide.
The SME market in Uganda has grown significantly over the past few years necessitating the need for a bank geared primarily towards SME banking. It was this

along with the bank's goal of expanding its network in East Africa that facilitated the emergence of a bank with award winning banking standards in Uganda.

CN started by saying that Fina was not into Microfinance because the balance sheets of contractors' were not suitable and because of the capital intensive nature of the business. So while Fina doesn't want to go into MF there may be another way…..

Fina started as a community bank in Kenya among the Asian Community. However this community is not as large in Uganda. Also there are other financial institutions in this market in UG. Therefore FIna are looking at modifying the community bank idea in UG. They have two ideas:

1. Loans for the MSME sector of from $1,000/$1,500 up to $50,000. This might be suitable for example for Community Maintenance of gravel roads under the general mission idea of "For the Good of the Community". This would see each household taking responsibility for the maintenance of a section of their road under an overall community umbrella.
2. Tarmac camber roads with culvert drains on behalf of or as subcontractor for government/UNRA projects. This would be in the form of stage contracts.

MF has a maximum of $25,000 but under MSME this goes up to $100,000. MSME works in a number of sectors but is not yet in construction. However if the CGF comes into being this could change and would also encourage the entry of supplementary players in upstream industries such as equipment and materials.

Fina charge an arrangement fee of 1% negotiable. They have nil defaults on performance bonds. Pressed for an indication of when Fina might develop products for the MSME construction sector CN replied that "we will go that route".

Tuesday 31 May 2011

FINCA www.finca.org/site/c.6fIGIXMFJnJ0H/b.6088543/k.C11B/Uganda stands for the Foundation for International Community Assistance.

Person met:

Julius Omoding, Chief Executive Officer. jomoding@finca.org.ug M. +256 722 650 750

He is ex telecoms (MTN) and Barclays Bank.

Established in 1984, FINCA is best known for having pioneered the "Village Banking method"--one of the major forms of microcredit--and for leadership in microfinance overall. The mission of FINCA International is to provide financial services to the world's lowest-income entrepreneurs so they can create jobs, build assets and improve their standard of living. FINCA is governed by BOU regulations.

FINCA is a Microfinance Deposit Taking Institution (MDI) and is fully owned by FINCA International. FINCA customers are classified as Groups, Small Groups and Individuals. Overall default rate is c.4% but in the individual category is about 1%. FINCA has experience of dealing with the Agribusiness sector and is familiar with the ABIT Guarantee Fund. JO would see that the presence of a CGF as making an important positive difference to the encouraging the MF sector to lend to players in the construction/contracting business. However good due diligence and monitoring would be a very important aspect of lending to SMEs in the contracting business. This would include qualifications & certification, evidence of track record, monitoring of expenditure against contract value and having basic projections. JO would not be averse to providing Performance Bonds, if required, through a 3rd party.

FINCA has no experience of contracting and caters for low income entrepreneurs. However FINCA has an appetite to attract SMEs and has been reviewing its opportunities in this sector for the past six months. JO cited the example of the fibre optic cable project which based on the maximum loan of $30k could lay 6kms of fibre cable. MTN was the employer, there was a main contractor and then sub contractors to actually lay the cable.

Wednesday 1st June 2011. (Meeting re CGF attended in conjunction with Finance STE).

AgriBusiness Initiative Trust (ABIT) Website in development.

Paul Mayanja, Managing Director. Paul.mayanja@abitrust.com M. +256 782 358 207

Svend Kaare Jensen, Chief Operations Officer/Chief Advisor. Svend.jensen@abitrust.com

M. +256 785 901 267

This meeting was arranged by Keith Cornish in order to progress getting agreement of ABIT to setting up a CGF along the same lines as their existing Agribusiness Guarantee Funds. It is envisaged that this fund will have between £1m and £2m, be provided by the UK Department for International Development (DfID). The administration charge is expected to be 2% (negotiable). PM stated that since roads are needed for agribusiness there is a natural synergy for ABIT involvement. Some criteria for use by contractors of the fund would include:

- Have to employee qualified engineer.
- Engineer has to be member of a professional association.
- Have to have a training programme for equipment operatives.
- Contractor must be a member of a professional body.

SKJ stated that there will also be a need to train the bankers in the new products as part of the Business Development Service (BDS). Contractors will need to be trained in such matters as bid documents, business plans, managing costs and budgets in order to be able to meet banks requirements. Good references were received in respect of Friends Consult

(Andrew Obara) whom we had met the previous day. Some thoughts were expressed on possible collaboration with ABIT on training requirements. PG was invited to contact PM separately for discussion on microfinance possibilities. ABIT would have no problem in supporting the microfinance sector. Currently ABIT has 5 banks involved and wants to extend this to 8 banks/microfinance institutions. ABIT charges banks 1% to partake in the ABIT Guarantee Fund.

The CGF would have a Board of Directors, a Management Committee which would need technical assistance plus a representative from a professional association for the construction/contracting industry plus a representative from DFID plus a project technical representative. It was stated that Donors and DANIDA (Danish International Development Assistance) were keen to privatise the maintenance of roads.

The main players in the leasing of equipment etc were identified as STABIC/DFCU banks. Bankers are not particularly interested in leasing as they do not to end up owning equipment but will give asset purchase loans subject to collateral. ABIT employs professional investment bankers so insure that there is a good investment policy and that investment income will more than cover any defaults (0.5%).

It will be necessary to have documents cleared in time for ABIT Board on 24/26 August next and maybe KC will be requested to make presentation. An agreement between ABIt and DFID should take about two weeks to put together.

KC raised the idea of a Revolving Fund for cash loans. PM was not interested, at least not in the beginning.

ABIT would expect to launch the CGF on 24th August.

Wednesday 1st June 2011

Finance Trust www.financetrust.co.ug/Profile.pdf

Annet Nakawunde Mulindwa, Chief Manager Operations. Annet.nakawunde@financetrust.co.ug M. 0772 415 642

Annet was deputizing for Mattias Katemba, CEO who has held this position for the last 5 years. He is also the Chairman/National President of the Association of Microfinance Institutions in Uganda (AMFIU). He is a member of the Steering Committee for Client Protection at the Centre for Financial inclusion, Washington DC and has delivered papers at a number of industry forums across the world.

Annet holds a Masters in Business Administration and Management, Bachelor of Arts (Arts) and a Post Graduate Diploma in Financial Management. Annet has over 10 years of practical experience in Microfinance. She worked as a Credit Officer and Branch Manager with PRIDE Microfinance until 2007 March.

Background: Uganda Finance Trust Ltd MDI (Finance Trust) is one of the oldest Microfinance Institutions in Uganda having started its operations in 1984. The company is licensed and regulated by Bank of Uganda as a Micro Deposit Taking Institution (MDI) and is recognized as a key player and part of Uganda's formal financial sector.

The company has one of the largest branch networks in Uganda with 28 interconnected branches strategically positioned all over the country and serves over 140,000 customers with a variety of savings and loan solutions including business loans, salary loans, school fees loans, savings accounts, fixed deposits and a money transfer service e through Western Union Money Transfer.

The company has a diversity of shareholders mixing both local and international players i.e. OikoCredit from the Netherlands, I&P from France in addition to UWFT (a local NGO), a group of Prominent Ugandan women entrepreneurs (founder members) and others.

Finance Trust is a company with a varied shareholding structure comprising of international and domestic shareholding. The international shareholding represents 49% and comprises of Oiko Credit an ecumenical church based in the Netherlands and I&P who are Economic fund managers based in Paris. The domestic shareholding is 51% comprising of Uganda Women's Trust (UWT) the founding NGO, Founder members- a group of visionary Ugandan women who started the predecessor company back in the 1980's and Mathias Katamba CEO and Margare Kedi.

Maximum loan at FT is Ush70m ($30k). Annet seemed quite interested in the programme and its possibilities for servicing the weekly/monthly payment needs of the community. She stated more than once that she thought it was a very beautiful idea. However FT would need to research the market by going out into the community. Just now however there was no budget for such research. However when the budget for 2012 was being prepared later in the year funding for such research would be included and hopefully a product produced in 2012. Meanwhile Annet would be giving her CEO Mattias feedback on our meeting and briefing him on our programme.

Wednesday 1st June 2011

Pride Microfinance Limited (www.pridemicrofinance.co.ug/)

Veronicah Namagembe MD. vnamagembe@pridemicrofinance.co.ug M. +256 772 449 421

PML MDI is a 100% government owned institution. It has 29 branches, 514 staff and 240,000 customers. Pride targets small to medium entrepreneurs with upscale potential. Its number 1 strategic objective is to transform into a Commercial Bank. It has two products that could have synergy with the CrossRoads programme;

- Group Guarantee Loan Scheme which is designed for village group clients and those that desire to come together as a group and get loans.
- Mortgage & Asset Loan Scheme which gives a customer access to the loan without paying for it all at once.

The maximum loan is stated as Ush160m ($65,000) though the actual maximum that has been lent is Ush70m ($30,000). The average loan is $400.

Veronicah was very interested in and attentive to the CrossRoads programme. She stated that she will have some discussion with ABIT CEO Paul Mayanja who was formerly with Pride and whom she knows and also Julias at FINCA and Annet at Finance Trust all of whom she knows. She appreciates that the planned meeting of Bankers and Contractors in August will serve to explain and provide greater understanding of the business opportunities of the programme. In the meantime she thought a concept paper would be useful to the preparation of a suitable product. Veronicah gave me a present of "My Bank" issue 13, May/June 2011 which includes an article by her as well as a useful table of Financial Institutions in Uganda.

2nd June 2011 (Meeting attended in conjunction with K. Cornish).

East Africa Development Bank www.eadb.org/index.php

People met:
Valentine Ojangole, Finance Manager. vojangole@eadb.org M. +256 753 085 302
Ramadhan J Kamilagwe, Country Manager Uganda. rkamilagwe@eadb.org M. +256 752 712 032
Another, Treasury Manager.

The East African Development Bank (EADB) was established in 1967 under the treaty of the then East African Cooperation. Following the breakup of the community in 1977, the Bank was re-established under its own charter in 1980. Under this charter, the Bank's role and mandate were reviewed and its operational scope expanded. Under its expanded operational scope, the Bank offers a broad range of financial services in the Member States of Kenya, Uganda, Tanzania and Rwanda with an overriding objective of strengthening socio-economic development and regional integration.

EADB is owned by the four member states of Kenya, Uganda, Tanzania and Rwanda. Other shareholders include the African Development Bank (AfDB), the Netherlands Development Finance Company (FMO), German Investment and Development Company (DEG), SBIC-Africa Holdings, Commercial Bank of Africa, Nairobi, Nordea Bank of Sweden, Standard Chartered Bank, London and Barclays Bank Plc, London.

The revitalization of the regional cooperation among the Member States through the establishment of the new East African Community (EAC) has accorded the Bank the opportunity of playing a catalyzing role in regional integration through provision of development finance. The ensuing prospects conform to the Bank's envisaged stable outlook.
The Bank is internationally rated.

As a leading development finance institution with an overriding objective of promoting development in the Member States, EADB plays a threefold role of lender, advisor and development partner. The Bank provides a range of products and services which are tailor made for the region's development requirements.
The Bank's financial products are availed in both local and foreign currencies. The general terms and conditions are as follows:

- Medium and Long Term Loan US Dollar 50,000 to 10,000,000
- Short Term Loan US Dollar 50,000 to 400,000
- Asset Leasing US Dollar 20,000 to a maximum limit that depends on client needs
- Trade Finance US Dollar 50,000 to 5,000,000
- Investment in equity is subject to a maximum US Dollar 500,000 per entity

Valentine expressed the view that the main issue with contracting was that the government did not pay on time and in fact was typically three months overdue. Having explained our programme, Valentine suggested that there was a possibility for cooperation in the CGF and also that equipment leasing might be a possibility. EADB already has some construction clients-ROKO and Spencon, all with mainly used equipment leasing. EADB deals in finance leases of between 100k/200k up to a maximum of $1m.

EADB say that corruption is the biggest problem and reckon that this amounts to 40% in construction. As they put it "You can smell it but you can't see it." EADV place high importance on site inspections and note that some contractors do not properly maintain equipment. EADB also mentioned that the Ministry of Works has a training centre which is underutilized and needs capacity building and is a possible area for our cooperation.

Under the Finance Lease EADB acquires the equipment and registers in its name. The lease is for 3 to 5 years after which it is purchased by the lessor for a nominal sum of perhaps 1%. EADB say they have a very low default rate in leasing. Leases are subject sometimes to personal guarantees and a deposit of 20% in lieu of the first payment.
Only two of the commercial banks are in leasing (DFCU +?). Base rate is 16%. EADB are open to bonds but has either not been approached or the client did not pass their due diligence. Bonds could be at lower rates than competition.

Equipment pooling could be commercially viable in the private sector and EADB could be interested subject to the detail.

About ROKO Construction:

ROKO is a construction company in Uganda it also operates in other counties like Congo, Rwanda, and Sudan. It is self-sufficient in the majority construction disciplines, its other services include aluminum fabrication, metal fabrication & welding, carpentry and joinery, shuttering and scaffolding, mechanical works and electrical works.

About Spencon:

In the early eighties, the company focused on Water and Sanitation Sector. By the late eighties, the company branched into more specialised engineering disciplines such as electrical (high-voltage), hydraulic, M-E and instrumentation and roads/bridges giving it a broader operating base. Today Spencon is the only multi- disciplined construction company having full fledged functional base in Kenya, Uganda, Tanzania and Zambia. Projects in Malawi and Mozambique are managed from Zambia, whereas Southern Sudan and DRC Corgo are managed from Kenya. Over the period the company has grown steadily at an average compounded growth rate of over 20% per annum. In 2005 the shareholders decided to increase the capital base of the company and 'Corporatise" the management. Subsequently in 2006 EMP Washington USA based decided to take 42% equity in the company.

Tuesday 7th June 2011

Stromme Foundation

Priscilla Mirembe Serukka, Regional Director/Chairperson Stromme Microfinance EA Ltd.

Priscilla.serukka@stromme.org M. +256 722 701 823

The Stromme Foundation is a Norwegian international NGO that was founded in 1976 by the Lutheran Pastor Olaf Stromme to help people get out of poverty. The regional office in Uganda was opened in 1994. SF works through educational intervention and microfinance to contribute to the elimination of poverty. SMF EA endeavours to provide, on a sustainable basis, market responsive financial and non-financial services as well as technical assistance to financial institutions and business service providers. SMF EA provides medium term wholesale loans, equity acquisition, support to business development and capacity building for microfinance clients, loan guarantees, and community managed microfinance through the self help group methodology. SMF EA wholesales funds to other microfinance agencies in Uganda such as Pride, MCDT,UGAFODE, HOFOKAM,MICROUGANDA,VICTORIA BASIN etc.

One of SMF EA biggest problems is that funds borrowed for business loans get diverted by the borrow into school fees, furniture and other household expenditure.

Regarding roads, PMS did not think any of the microfinance agencies made any loans towards road maintenance projects. She thought one of the biggest problems was the restrictions imposed by Kampala City Council on community involvement in roads maintenance. Councils will not allow community based organisations CBO to take responsibility for their own roads. Apart from that contracting was too expensive and interest rates of 25/28% made it too expensive to borrow. She stated that local contractors /CBO contractors would need operative training. Other problems she identified included lack of collateral, high risky, seasonality, lack of insurance. Overall however PMS was very interested in the whole project and saw great potential for involvement of CBOs and microfinance.

Tuesday 7th June 2011

Association of Micro Finance Institutions of Uganda, AMFIU.

David Baguma, Executive Director. David_baguma@yahoo.com dbaguma@amfiu.org.ug

M. 0772 447 387

David was not aware of any microfinance agencies with involvement in roads maintenance, construction or contracting. He was however quite supportive of the proposal to involve MF agencies. He stated that his members will need to design suitable products for this market. The main obstacles he identified were slow pay by such as the local councils and UNRA and also corruption which he estimated at 5%/10%. One suggestion he made was that contractor loan repayments be deducted at source by the employer (Council/UNRA etc) and paid over directly to the bank or microfinance agency so as to eliminate bad debts or diversion of the funds in to household expenditures or other needs.

Friday 10th June 2011

Agribusiness Initiative Trust (aBiT).

Paul Mayanja, Managing Director. Paul.mayanja@abitrust.com M. +256 782 358 207

This meeting was a follow up to the invitation issued during the course of the meeting on 1st June re CGF to meet separately with PM to discuss microfinance issues. Paul formerly worked for Pride Microfinance Ltd and is knowledgeable and experienced in the MF area.

Paul confirmed what others had said that there is no experience of road contractor loans within the MFIs. The discussion then centered on the preliminary findings and suggestions being made in this report. In particular the example of the LBC contract for Ush720k with a loan for equipment of Ush200k and a working capital facility of Ush2m for three months was discussed in some detail. PM was very positive about the proposal though he did think that the equipment loan of Ush200k might be an obstacle but not impossible to overcome. The working capital facility however should not present any problem that he could see. The example of Bangladesh was discussed. PM had in fact been to Bangladesh in his MF days and was very encouraged by what he had seen of roads construction and maintenance in the outreaches in Bangladesh.

The key to the way forward was to get the local authorities involved and to educate them and sensitize them to the proposal. It would therefore be necessary to get UNRA and the Ministry of Local Government to the table and build an education/sensitization programme to bring the idea/proposal to such as the district engineers.

PM also suggested that the capacity building for the MFIs should be done under the umbrella of AMFIU. A study tour to Bangladesh should also form part of the sensitization process. All in all PM was very much in favor of the proposed ideas for the MFIs.

Tuesday 14 June 2011

The Microfinance Support Centre www.msc.co.ug/

Wilson Wamatsembe, Deputy Executive Director. wamatsembe@msc.co.ug
M. +256 772 233 673

The Microfinance Support Centre Ltd (MSC) is a Government owned company and was incorporated in 2001 as a company limited by guarantee. MSC was charged among others with the management of the Rural Microfinance Support Project funded by the Government of Uganda (GoU) and the African Development Bank (AfDB).

MSC also manages the proceeds of the just ended North West Smallholder Agricultural Development Project funded by GoU and AfDB, and the Government fund for Support to Savings and Credit Cooperative Societies (SACCOs). MSC is the linchpin of Government of Uganda micro credit programmes under the Rural Financial Services Strategy. The company offers affordable credit through loan products that support the agricultural production value chain namely; production, value addition and marketing. MSC also offers Business Development Services to her clients.

MSC is a wholesaler of funds to savings and credit institutions and does not have a retail operation. Its loan products are: The Agricultural Loan; The Environmental Loan; The Special Interest Group Loan; The Commercial Loan; The SME Loan.

MSC has no history or experience of contractors in the construction sector. WM's perception of the construction contracting sector is that the amounts involved would be too large for the MFIs and also that there are repayment problems in the sector. Following an explanation of the CrossRoads project and the proposal to encourage MFIs to develop products aligned with Labour Based Contracts, Wilson saw the potential of the market and said MSC would be willing to participate in the development of such products.

TRAINING COMPANIES

Tuesday 31st May 2011

Friends Consult www.friendsconsult.co.ug/

Andrew Obara, Managing Director. aobara@friendsconsult.co.ug 0772 812 090

Andrew Obara MBA, BA (Econ), ACCA Diploma in Financial Management - Managing Director

Andrew is the team leader and overall Quality Controller at FCL with practical, senior level experience in banking, investments, venture capital, microfinance capacity building, strategic planning, feasibility studies, other corporate business development services, SMME technical assistance, project/ fund management, project/ fund design, general consulting services, corporate, & national microfinance capacity building strategies. Formerly Andrew was Head of Credit at a bank.

FRIENDS Consult Ltd (FCL) was incorporated in 1997 to provide financial, business and general consultancy services. Since then, the firm has accomplished over 100 challenging assignments to the total delight of the respective clients

Services.

-Microfinance Capacity Building
-Corporate Business Expansion and Development Services
-Project / Fund Design and Management
-Micro, Small and Medium Enterprise (MSME) Improvement Services
-Socio-Economic Development Support Services

FC employs 3 qualified accountants and numbers DFCU amongst its clients.
Andrew outlined some of the training programmes he has delivered, durations and costs, e.g. 4 days training for 25 people excluding hotel/flights etc Ush7.5m ($3,000). He has some road construction companies as clients for whom he has prepared feasibility studies etc. It was agreed that Andrew would forward me a one page outline of training by Monday 6th June next.

Monday 6th June 2011

Kisaka & Co. CPA & Management Consultants www.kisaka.ug/

Jobra Mulumba, Partner. Kisaka@africaonline.co.ug +256 414 255 453

Kisaka provide training in a variety of areas including Internal Audit, treasury Management, Finance for Non-Financial managers. They do not have their own facilities and so hire hall or hotel facilities. There are just two partners, Jobra and the senior partner who is Robert Katuntu, a retired banker and an accountant. In addition to the two partners there are two senior managers, 5 supervisors and 5 seniors.

Kisaka are currently working with COWI, an engineering consulting firm, on a value for money audit on behalf of UNRA and are currently at the stage of preparing a draft report. The value for money audit covers procurement, financial management, controls, tenders etc.

Kisaka operate with stand-by trainers in specialist areas who are very expensive. Daily rates are anywhere between $300 and $500 per day. They have no in-house trainers.

Kisaka are currently engaged on a consulting assignment in Tanzania on behalf of SIDA, the Swedish International Development Agency. Kisaka have previously worked on behalf of DFID on two projects: 1. Finance & Accounting for Microfinance Institutions in Uganda (4/5 years ago). 2. Microfinance Framework in Ethiopia. Kisaka have also performed consulting work for several microfinance institutions in Uganda including Pride, Finance Trust. They have also recruited several staff on behalf of MF institutions. Cobra considers AMFIU as the more important of the MF associations.

Monday 6th June 2011

ACLAIM Africa Ltd. http: www.aclaimafrica.com/

Fredrick Kawuma, Managing Director. fkawuma@aclaimafrica.com M. +256 712 700 190

Jannet Opio, Organisation & Business Development Consultant. jopio@aclaimafrica.com
M. +256 712 800 123

Aclaim have delivered training to Local Government (Understanding Finance) and to Banks (KCB/Barclays). They deliver training on Finance, Management, Customer Care, Boardroom orientations etc. Aclaim are accredited by the International Labour Organisation (ILO) for working with SMEs and worked with two construction companies in 2005. They have an in-house engineer who understands construction. Under a Commonwealth Secretariat programme, three Aclaim staff (including Jannet) are fully trained Trainers in PPDA (Public Procurement Disposal of Public Assets Authority) www.ppda.go.ug/ .

Jannet sits on the Board and Finance & Audit Committee of the Windle Trust which is involved in construction of educational facilities in northern Uganda. (www.windle.org.uk/) . Windle Trust International is a registered UK charity based in the university city of Oxford, with offices also in Sudan, and sister organisations in Uganda, Kenya and Ethiopia. The Trust's work is funded by a wide range of donors and supported by universities and colleges in Britain and Africa.

A training seminar on PPDA would be of three days duration from 08.30 to 17.00. Acclaim would invite somebody from the SME sector to impart their experience as part of the training. Aclaim would envisage using two trainers. Their time would encompass preparation of material, delivery and post assessment report time as well as on-going support. Trainers are charged at $500 per day per trainer.

Aclaim have delivered two training interventions on behalf of DFID: 1 In Kasuma and 2. Aqua Shops Project.

Enterprise Development in the SME/MSME sector is part of the Aclaim portfolio. Also, as part of their accreditation by ILO, Aclaim developed packages/linkages for the SME/MSME sector in conjunction with Barclays and DFCU banks in the period 2005-2008.

In father discussion Acclaim Foundation mentioned the Private Sector Foundation Uganda www.psfuganda.org/**.** PSFU is Uganda's Apex body for the private sector. It is made up of 157 business associations, corporate bodies and the major public sector agencies that support private sector growth. PSFU's 13 million British Sterling Pounds Grant Scheme is intended to support business improvement, value addition and job creation in the greater North and parts of Eastern and North-Western Uganda. Is this of interest to the crossroads programme?

Aclaim mentioned that the biggest challenge in the construction sector is the integrity of the guarantors.

OTHER MEETINGS

Monday 6th June 2011.

Mike Hughes (WSP/UNRA) M. 0788 720 148

Mike had mentioned the Lenghtman scheme during our social conversation the previous Friday evening. According to Mike this used to be something within the Rural Roads Maintenance programme some 14 years ago but he does not know if it still exists.

A colleague of Mike's, Valentine, suggested I ask DFID for "ILO Labour based Road Maintenance" books and that I speak with Joseph Kumbia regional Manager West. Joseph has since given me a hard copy of a blank Labour Based Works Contract Agreement for my perusal and has emailed me a soft copy of a blank agreement. Joseph mentioned that Labour Based Contracts are typically for between 5 and 10 kilometres and the rate is Ush72,000 ($30) per kilometer. Typically the equipment required is shovels, wheelbarrow, boots, machete, axe etc. Typical labour is 5 men. It may be six weeks before the first payment is made so a small amount of capital for equipment and 6 weeks labour will be required.

Mike also talked about the Labour Contracting Society (LCS) agreements used in Bangladesh and mentioned a DFID Report on these. LCS agreements are sometimes used in contracting, for such as maintenance of verges and trees, culvert pipes, block/brick paving, small piles, concrete sheeting and similar work, sometimes including women.

Mike also mentioned Local Government Engineering Dept (LGED) contracts. www.lged.gov.bd Local Government Engineering Department (LGED) is one of the largest public sector organizations in Bangladesh entrusted for planning and implementation of local level rural urban and small scale water resources infrastructure development programs. LGED works closely with the local stakeholders to ensure people's participation and bottom–up planning in all stages of project implementation cycle. The broad objectives of LGED's development activities are to improve the socio-economic condition of the country through supply of infrastructures at local level and capacity building of the stakeholders. LGED promotes labour-based technology to create employment opportunity at local level and uses local materials in construction and maintenance to optimize the project implementation cost with preserving the desired quality. LGED works in a wide range of diversified programs like construction of roads, bridges/ culverts and markets to social mobilization, empowerment and environmental protection. LGED operates so that the workers are paid through bank accounts and a percentage is saved for them. Vocational training is also provided.

Mike also mentioned BRAC which is a development organisation dedicated to alleviating poverty by empowering the poor to bring about change in their own lives. www.brac.net/content/ . Microfinance is the heart of BRAC's integrated approach to alleviating poverty and helping poor Ugandan women realise their potential. More than 150,000 women are members of almost 6,000 community-based microfinance groups throughout Uganda. They gather weekly in villages, towns and city neighborhoods to make repayments on their loans and apply for new ones. Gramin was another organisation mentioned by Mike.

QUESTIONNAIRE USED TO GUIDE INTERVIEWS

1. Relationship with Construction Industry and supplementary players:
2. Opinion of local construction industry as lending risk:
3. What criteria are used, if any, for lending to construction industry (size, reputation, credit worthiness, track record etc)?:
4. What problems have there been in lending to the construction industry?:
5. What are the normal terms for such lending (signed contracts, bonds, sureties, guarantees, retentions, interest rates, collateral required)?:
6. Attitude to lending to new, small, emerging contractors:
7. What would be required to encourage/facilitate lending to
   (a) Existing contractors
   (b) New, small, emerging contractors
8. Any variations on the above for supplementary players eg pipe making, materials testing laboratories, gravel, bitumen etc?
9. Is this financial institution interested in lending more to the construction industry or can it suggest alternatives?
10. Would this institution like to be more involved with lending to the construction industry? If so, what needs to be done to enhance its lending? If not, how would it suggest financing mechanisms for the industry could be provided?
11. Would there be any institutional or regulatory requirements associated with enhanced lending, establishment of new mechanisms or amendments to law (procurement rules, standardization of purchases etc)?
12. What is the attitude to, say, a Construction Guarantee Fund for improving lending conditions to the industry? How could this be set up ? Should it be independent or involve only a few/one lenders or open to all subject to certain criteria?
13. What mechanisms could be used to offer *partial* protection against default on bonds?
14. Does the institution have any experience of revolving funds or other ways to support self-sustaining lending to an industry?
15. What other ways could be used to improve lending/liquidity for construction industry companies---equipment hire pool?
16. Would the institution be prepared to participate in the CROSSROADS programme by participating on the Steering Committee?
17. Lending criteria for Micro Finance re construction industry:
    a. Size of loan
    b. Working capital?
    c. Bonds-bid, performance, advance, retention?
    d. Collateral
    e. Costs, pricing
    f. Specialize in sector?

Microfinance Institutions recommended by Chris Musoke (DFID) :

Uganda Finance Trust, Contact - Mathias Katamba, CEO, 0772587292, mathias.katamba@u-trust.co.ug

Finca Uganda, Contact - Godfrey Byekwaso, CEO, 0752278822, gbyekwaso@villagebanking.org

-Julius Omoding, CEO 0772 650 750. jomoding@finca.or.ug

Pride Microfinance, Contact – Veronica Namagembe, CEO, 0772449421, vnamagembe@pridemicrofinance.co.ug

Stromme Microfinance E.A. Ltd (Wholesale Lender), Contact - Priscilla Serukka, Chairwoman, 0772701823, priscilla.serukka@stromme.org

Fina Bank are targetting SMEs and you might want to talk to Charles Nalyaali the CEO, 0753977977, charles.nalyaali@finabank.co.ug

Appendix 4

FRIENDS CONSULT

CONCEPT NOTE: FINANCIAL CAPABILITY ENHANCEMENT FOR CONTRACTORS IN UGANDA

Overall project objective	To help contractors in Uganda acquire financial skills, knowledge and capability that will enable them to better manage their businesses and to beneficially deal/ interact with financial institutions from a more informed position.
Specific objectives	By the end of the consultant's work with each client, the client must be able to: - Read and interpret financial statements (income statement, balance sheet & cash flow statement) - Explain and discuss the key terms, concepts and reasoning used by banks and other financial institutions in doing business with their customers - Prepare well thought-out financing proposals and business plans for loans/ advances, backed by realistic financial projections - Explain the meaning and rationale of collateral, guarantees, bid bonds, performance bonds facility/ commitment fees, and contract pre-financing from the bankers' viewpoint - Use all the above knowledge and aptitudes to better negotiate and engage with the banks/ financial institutions more effectively
Project activities	i) Practical, hands-on training of contractors on the above and related topics ii) Technical assistance in the form of on-the job training at contractors' own premises, including accompanying them to a bank for negotiations where applicable)

BROAD TOPICS TO BE COVERED

Understanding and Interpreting Financial Statements

Developing Effective Budgets and Business Plans (including constructing financial projections)

Basic Banking and Credit Concepts and Practices

Preparing Financing Proposals

Effective Negotiation Skills in Dealing with financiers

METHODS

In our experience, adults learn more if the subject matter touches on their immediate needs, the training is delivered in ways that emphasize practical application rather than theoretical knowledge and if they are assisted to learn through doing. A combination of training and on-the-job technical assistance is necessary sop that the participating contractors pin all the concepts and knowledge acquired down practical relevance. The training itself needs to be highly interactive and include a bit of fun, which enables the participants to learn through involvement.

The trainers need to be i) highly financially literate ii) experienced in banking and especially lending and corporate banking, and iii) good financial/ business consultants with a track record of delivering concrete results/ solutions to clients.

<u>Appendix 5</u>

Labour Based Contract (Sample)

UGANDA NATIONAL ROADS AUTHORITY

LABOUR BASED ROAD WORKS CONTRACT AGREEMENT

NUMBER : ………………

FINANCIAL YEAR : ………………

STATION : ………………

UGANDA NATIONAL ROADS AUTHORITY

PLOT No. 11, YUSUF LULE ROAD, KAMPALA

P.O BOX 2847

KAMPALA

THE REPUBLIC OF UGANDA

CONTRACT AGREEMENT FOR LABOUR BASED ROAD WORKS

THIS AGREEMENT made the ……………day of……………………………………………….,

between the **Uganda National Roads Authority** of P.O Box 28487. Kampala (hereinafter referred to as "the Employer"), of the one part, acting through its representative, the **Station Engineer** of ………………………………………………………………………………………………and

……(hereinafter referred to as “the Contractor”), of the other part:

WHEREAS the employer is desirous of maintaining its road net work in Uganda and has requested the Contractor to execute road maintenance as designed hereinafter;

AND

WHEREAS the (Contractor) presented to the employer the contractor has the required capacity and ability, and have agreed to execute the works on the terms and conditions set forth in this contract;

NOW THEREFORE the parties hereto hereby agree as follows:

1.0 ARTICLE 1

OBLIGATIONS OF THE CONTRACTOR

1.1 The Contractor shall carry out road maintenance works on daily basis beginning from the commencement of this contract for the duration of the contract period in the following areas.

Name of the Road………………………………………Link Number……………

District…………………………………………Sub-County………………………

From Km…………………………………….to Km……………………………….

1.2 The Contractor shall in carrying out maintenance work undertake the following services which are more particularly specified in Annex 1 and Annex 2 hereto:

1. Inspection and Removal of Obstructions (e.g. dead animals, fallen trees, debris etc);
2. Cleaning side drains;
3. Reinstating/Repairing scour checks;
4. Reinstating eroded ditches;
5. Cleaning mitre and catch water drains;
6. Cleaning culverts;
7. Cleaning stream channels;
8. Filling potholes and minor gullies;
9. Grubbing to reinstate road camber;

10. Repairing shoulder slope erosion;
11. Weeding of shoulders;
12. Grass cutting;
13. Bush/Shrub clearing;
14. Tree planting;
15. Tree nursing;
16. Removal of Debris and silt;
17. Sweeping the road;
18. Maintaining footpaths; and
19. Other miscellaneous activities that include removal of big stones, anthills, disposal of fallen trees within road reserves, etc.

2.0 ARTICLE 2

OBLIGATIONS OF THE EMPLOYER

2.1 The Executive Director, Uganda National Roads Authority will have the overall responsibility of the contract. He will be represented by the relevant Station Engineer for the day-to-day management of the contract.

2.2 The Employer shall appoint and provide a Road Overseer by the name of ………………………………………… who shall from time to time assign work to the Contractor

Whenever the Road Overseer is changed, the Contractor shall be notified in writing accordingly. The Contractor shall comply with the instructions and directions of the Road Overseer.

2.3 The Road Overseer shall issue weekly instructions to the Contractor specifying the works and quantity to be executed by the Contractor in accordance with the work plan (Annex 4) or as the situation warrants.

2.4 The Contractor's work shall be inspected by the Road Overseer at least twice a week. Both the Contractor and the Road Overseer shall jointly at the end of the month measure the work done by the Contractor for the month and enter the same on a reporting form to be provided for that purpose. Both the Contractor and Road Overseer shall then tender their signatures thereon and the Contractor shall submit the same to the Employer as a claim for settlement.

The certification on this claim will be done by the Station Engineer on behalf of the Executive Director.

The Contractor shall show proof that he owns hand tools such as shovels, slashers, hoes, wheelbarrows, machetes, pangas, rakes, red flags/warning signs, sisal strings, wooden rammers and inspection bicycle as detailed here in Annex 3 before award of contract.

3 ARTICLE 3

CONTRACT PRICE AND MODE OF PAYMENT

3.4 In consideration of the works to be performed by the Contractor, the Uganda National Roads Authority shall pay to the Contractor for the measured works executed by the Contractor at the unit rates indicated in Annex 1 hereto.
The Authority shall review the said rates any time the basic market labour rates change in excess of 10%.

3.2. The Contractor shall be paid for the work completed during the month within 21 days from the date of certificate. Such payment will not exceed Ushs……………………………………………….(in words Uganda shillings …………………………………………………………………………) for the entire contract.

3.3. The Contractor shall maintain an account with the nearest Commercial Bank and the account number shall be made known to the Station Engineer responsible for remitting the payment.

3.4. Payment shall be certified by the Station Engineer. The cheques drawn with respect to such payment shall be signed by the Station Engineer and countersigned by the Regional Manager.

4.0 ARTICLE 4.

COMMENCEMENT, DURATION AND TERMINATION

4.1 This contract shall commence on the date of signature or on…………………………………and shall be for a duration of ………………………..and shall be renewable thereafter by agreement of either parties.

4.2 This Contract shall be terminated at the end of the contract period specified in 4.1 or by either party after giving a one month's notice of either party.

4.3 The Employer or the Contractor may terminate the contract if the other party cause a fundamental breach of the contract. Fundamental breaches of the contract shall include but not limited to the following:

a) The Contractor stops work for a period longer than **15** working days and such stoppage is not authorized by the Employer
b) The Contractor engages in fraudulent or corrupt practices in competing for or in executing the contract
c) The Employer or Contractor is made bankrupt or goes in liquidation
d) The Contractor's performance is determined to be less than 50% for two consecutive months

4.4 Notwithstanding the above, the employer may terminate the contract for convenience

4.5 If the contract is terminated, the contractor shall stop work immediately and leave the site as soon as possible

5.0 **ARTICLE 5**

MODIFICATION

Modification of the terms and conditions of this contract, including any modification of the scope of the services shall be by written agreement between the parties.

6.0 ARTICLE 6.

SETTLEMENT OF DISPUTES

6.1 The parties shall use their best efforts to settle amicably all disputes arising out or in connection with this contract.

6.2 All disputes or differences that shall arise hereafter whether during the continuance of this contract or upon or after its discharge or termination shall be dealt in accordance with and subject to the provision of the arbitration and conciliation Act of Uganda or any statutory modification or re-enactment thereof for the time being in force.

7.0 ARTICLE 7.

It is hereby understood that annexures to this contract shall be read together with this contract and shall form an integral part of it.

In witness whereof the duly authorized representative of the parties hereto have signed this contract the day and the year first above written at…………………………………………………………………., Uganda.

……………………………………………..	…………………………………………
For and on behalf of the Uganda National Roads Authority	CONTRACTOR
………………………………………………	…………………………………………
WITNESS	WITNESS

Regional Manager………………………………………………………...

ANNEX 1(A)
Category: KAMPALA GENERAL

BILLS OF QUANTITIES

DISTRICT…………………………………….ROAD NAME…………………………

PACKAGE No:………………………………ROAD TYPE…………………………

FROM KM……………………………………TO KM…………………………………

ITEM	DESCRIPTION	UNIT	QUANTITY	RATE (USHS)	AMOUNT (USHS)
1	Inspection and Removal of Obstructions (e.g dead animals, fallen trees, debris etc)	L/S		8,361	
2	Cleaning side drains	M		278	
3	Reinstating/Repairing scour checks	No.		2,090	
4	Reinstating eroded ditches	M		2,090	
5	Cleaning mitre and catch water drains	M		210	
6	Cleaning culverts	M		2,090	
7	Cleaning stream channels	M		558	
8	Filling potholes and minor gullies	M^2		2,497	
9	Grubbing to reinstate road cumber	M^2		120	
10	Repairing shoulder slope erosion	M^2		92	
11	Weeding of shoulders	M^2		55	
12	Grass cutting	M^2		8	
13	Bush/Shrub clearing	M^2		55	
14	Tree planting	NO		417	
15	Tree nursing	M^2		210	
16	Removal of Debris and silt	M^2		139	
17	Sweeping the road	M^2		8	
18	Maintaining footpaths	M^2		55	
19	Other miscellaneous activities that include removal of big stones, anthills, disposal of fallen trees within road reserves, etc.	L/S		6,193	

ANNEX 1 (B)
Category: Mbarara, Fortportal, Kabale, Kasese, Masindi, Hoima, Arua, Moyo, Gulu, Lira, Kitgum, Jinja, Tororo, Mbale,Soroti, Kotido, Mpigi, Luwero, Mubende, Masaka, Moroto.

BILLS OF QUANTITIES

DISTRICT…………………………………….ROAD NAME………………………..

PACKAGE No:……………………………….ROAD TYPE…………………………..

FROM KM…………………………………..TO KM……………………………….

ITEM	DESCRIPTION	UNIT	QUANTITY	RATE (USHS)	AMOUNT (USHS)
1	Inspection and Removal of Obstructions (e.g dead animals, fallen trees, debris etc)	L/S		4,868	
2	Cleaning side drains	M		163	
3	Reinstating/Repairing scour checks	No.		1,216	
4	Reinstating eroded ditches	M		159	
5	Cleaning mitre and catch water drains	M		121	
6	Cleaning culverts	M		1,216	
7	Cleaning stream channels	M		324	
8	Filling potholes and minor gullies	M^2		1,622	
9	Grubbing to reinstate road cumber	M^2		69	
10	Repairing shoulder slope erosion	M^2		55	
11	Weeding of shoulders	M^2		69	

12	Grass cutting	M^2		6	
13	Bush/Shrub clearing	M^2		33	
14	Tree planting	No.		242	
15	Tree nursing	M^2		121	
16	Removal of Debris and silt	M^2		81	
17	Sweeping the road	M^2		6	
18	Maintaining footpaths	M^2		69	
19	Other miscellaneous activities that include removal of big stones, anthills, disposal of fallen trees within road reserves, etc.	L/S		4,868	

ANNEX 2

SPECIFICATIONS

1. ***Inspection and removal of obstructions:***

   Inspect the road, identify and remove all obstructions so that the road remains clear and clean at all times. If the obstruction is a dead animal, it should be buried off the road reserve and to a depth of at least 1 meter.

2. Clean side drains

Clear the side drains of all vegetation, silts and debris to keep them clean and draining at all times. The material removed should be disposed of at least 10m from the centreline of the road or as directed.

3. Reinstatement/Repair of scour checks

Reinstate/ Repair of scour checks made of stones or wooden pegs firmly fixed in the ditch to the following spacing:

Less 4% gradient-not required: 5% gradient-20m interval: 8% gradient-10m interval: 10% gradient-5m interval.

4. Repair eroded ditches

Repair eroded ditches including side drains with suitable material and compact.

5. Clear mitre/ Catch water drains

Clear mitre/catch water drains so that they are clean and draining all the time. The material removed should be disposed of at least 5m from the drains and not less than 10m from the road centerline.

6. Clean culvert

Unblock all silted culverts including inlets, outlets and outflow channels to a minimum length of 20m.

7. Clear stream channels

Clean stream channels of debris and vegetation to ease the flow of water through bridges and culverts at all times 10m both upstream and down stream.

8. Fill potholes, minor gullies and catch water drains

Fill potholes and minor gullies that develop on carriageway with approved material.

9. Grub to reinstate road cumber

Reinstate eroded shoulder slopes and ditch slopes using approved material and compact to original levels.

10. Repair shoulder slope erosion

Repair the eroded shoulders by filling and compacting gullies and potholes using approved granular materials and reinstate to specified camber as directed by the Station Engineer.

11. Weeding of Shoulders

Weed all grass from the shoulders, and carry to spoil not les than 10m from the side drain.

12. Grass cutting

Keep all grass cut to a specific level of not more than 75mm high and to a width from the side drain covering the road reserve.

13. Bush/Shrub clearing

Clear the road reserve of all bush/shrubs to a level not exceeding 150mm to give visibility to road users

14. Tree Planting

Plant tree seedlings provide by the Station Engineer at 20m intervals and 3m from the side drain.

15. Tree nursing

Attend to all trees planted for such a time that they can resist dry weather and insects attack.

16. Removal of debris and silt

Remove all debris and silt so that the carriageway remains free of any debris and silt.

17. Sweeping the road

Sweep the road using a broom so that the road remains clean and clear.

18. Maintaining Footpaths

Maintain footpaths by weeding grass 1m width and carry to spoil not less than 5m from the side of the footpath.

19. Miscellaneous

These are incidental and specific activities that may be directed by the Station Engineer and include felling and removal of big tees within the road reserve, removal of anthills and should be carried out to the Engineer’s satisfaction

ANNEX 3

TOOLS TO BE MOBILISED FOR USE BY THE CONTRACTOR

Road Link Name………………………………… Package/Contract No:………………

Location Km …………………………………….. to Km………………………………..

ITEM	DESCRIPTION		
1	HOE	No.	
2	SHOVEL	No.	
3	PANGA	No.	
4	SLASHER	No.	
5	RAKE	No.	
6	WHEELBARROW	No.	
7	AXE	No.	
8	PICK AXE	No.	
9	MEASURING TAPE (NOT LESS THAN 30M LONG)	No.	

10	RED FLAGS/WARNING SIGNS	Set	
11	SISAL STRINGS	No.	
12	WOODEN RAMMERS	No.	
13	INSPECTION BICYCLE	NO	
14			
15			
16			

ANNEX 4 BI-ANNUAL WORK PLAN

Road Link Name …………………………… Package/Contract No. ………………………..
Location from Km ……. To Km ………

No.	MONTH / ACTIVITY WEEK	JULY				AUGUST				SEPTEMBER				OCTOBER				NOVEMBER				DECEMBER			
		1	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*
1	Inspection and Removal of obstructions																								
2	Cleaning side drains																								
3	Reinstating/Repairing scour checks																								
4	Reinstating eroded ditches																								
5	Cleaning mitre and catch water drains																								
6	Cleaning culverts																								
7	Cleaning stream channels																								
8	Filling potholes and minor gullies																								
9	Grubbing to reinstate road cumber																								
10	Repairing shoulder slope erosion																								
11	Weeding of																								

	shoulders																								
12	Grass cutting																								
13	Bush/Shrub clearing																								
14	Tree planting																								
15	Tree nursing																								
16	Removal of Debris and silt																								
17	Sweeping the road																								
18	Maintaining footpaths																								
19	Miscellaneous (e.g. removal of anthills, etc)																								

ACTIVITY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
UNIT	-	m	m	m	m	m	M	m	m	m	m	m	m3	m2	m2	m2	m2	m2	m2	m2	m2	No	m2	m2	m2	L/S
AVERAGE DAILY PRODUCTION	-	25	50	20	8	25	50	1	1.0	15	20	40	3	10	70	90	70	1000	150	50	20	40	30	1000	70	
DAYS ALLOCATED IN A/3 MONTH CYCLE RANGE	-	9-15	9-15	*	*	2-4	2-4	3-9	3-9	3-9	2-4	2-4	*	*	*	*	22-26	*	*	*	*	*	3-9	3-9	*	*
* All othe activities are included in the remaining days out of 75																										

ANNEX 4 BI-ANNUAL WORK PLAN

Road Link Name …………………………… Package/Contract No. ……………………….. Location from Km ……. To Km ………

No.	MONTH ACTIVITY WEEK	JANUARY				FEBRUARY				MARCH				APRIL				MAY				JUNE			
		1	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*
1	Inspection and Removal of obstructions																								
2	Cleaning side drains																								
3	Reinstating/Repairing scour checks																								
4	Reinstating eroded ditches																								
5	Cleaning mitre and catch water drains																								
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15	Tree nursing																								
16	Removal of Debris and silt																								
17	Sweeping the road																								
18	Maintaining footpaths																								
19	Miscellaneous (e.g. removal of anthills, etc)																								

ACTIVITY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
UNIT	-	m	m	m	m	m	M	m	m	m	m	m	m3	m2	m2	m2	m2	m2	m2	m2	m2	No	m2	m2	m2	L/S
AVERAGE DAILY PRODUCTION	-	25	50	20	8	25	50	1	1.0	15	20	40	3	10	70	90	70	1000	150	50	20	40	30	1000	70	
DAYS ALLOCATED IN A/3 MONTH CYCLE RANGE	-	9-15	9-15	*	*	2-4	2-4	3-9	3-9	3-9	2-4	2-4	*	*	*	*	22-26	*	*	*	*	*	3-9	3-9	*	*
* All other activities are included in the remaining days out of 75																										

Appendix 6

Local Government Engineering Department, Bangladesh

Local Government Engineering Department (LGED) is one of the largest public sector organizations in Bangladesh entrusted for planning and implementation of local level rural urban and small scale water resources infrastructure development programs. LGED works closely with the local stakeholders to ensure people's participation and bottom–up planning in all stages of project implementation cycle. The broad objectives of LGED's development activities are to improve the socio-economic condition of the country through supply of infrastructures at local level and capacity building of the stakeholders. *LGED promotes labour-based technology to create employment opportunity at local level and uses local materials in construction and maintenance to optimize the project implementation cost with preserving the desired quality. LGED works in a wide range of diversified programs like construction of roads, bridges/ culverts and markets to social mobilization, empowerment and environmental protection.* The organizational background of LGED can be traced back to early sixties when implementation of works program (WP) comprising Rural Works Program (RWP), Thana Irrigation program (TIP) and Thana Technical Development Committee (TTDC) was started. A ''Cell'' was established in the Local Government Division (LGD) under the Ministry of Local Government, Rural Development and Cooperative (MLGRD&C) in 1970s. To administer WP nation-wide, the Works Program Wing (WPW) was created in 1982 under the Development Budget. It was reformed into the Local Government Engineering Bureau (LGEB) under Revenue Budget of the Government in October, 1984. LGEB was upgraded as the Local Government Engineering Department (LGED) in August, 1982.

The main intervention of LGED for rural infrastructure development programs is to develop rural road transport network to improve accessibility to Growth Centers (GC), important social & administrative points and also development of GCs to expand marketing facilities of farm and non-farm products of the rural areas. GCs are economically important markets which play role as economic nucleus of a particular rural area. There are 2100 GCs and 18000 small markets across the country. The rural infrastructure development activities that LGED implement are listed below.

- Construction of Upazila and Union roads and bridge/culverts on those roads.
- Development of Growth Centers (GC)
- Construction of Union Parishad (Council) Complexes and Primary Schools.
- Construction of Jetty and boat landing.
- Constructions of cyclone shelters and Killas (Elevated earthen place for the shelter of livestocks during flood)
- Development of technical specifications and manuals for construction of rural infrastructures.

- Development and updating of rural road master plan, infrastructure database and digital maps.
- Development of Upazila and Union plan book to facilitate local level planning and participation
- Provide technical support to Zila and Upazila Parishads
- Tree plantation on the slope of roads and embankments.

There are total 0.265 million kilometers of roads and 1.2 million meters length of bridge/ culverts under jurisdiction of LGED and LGIs. For detail statistics and conditions of roads and bridge/culverts, see section "RIMMU – Rural Infrastructure Maintenance Management Unit". Once a road is developed or a bridge/culverts are constructed, it becomes a public asset. So maintenance of these assets is very vital without which transport systems turn less effective that implicates road safety, vehicle operating cost and many other things.

There are two types of maintenance:

- Routine maintenance
- Periodic maintenance

Other than above, there is Emergency Maintenance for special circumstances like disaster or other natural calamities.

The maintenance functions of LGED that RIMMU performs are as follows:

- Update and maintain roads and structure database.
- Prepare annual maintenance plan and budget.
- Develop maintenance guidelines and manuals.
- Conduct traffic and road condition survey

DFID along with ADB and GIZ is currently funding the second Rural Infrastructural Improvement Project (RIIP 11) with a budget of $213.9m. The development objectives of the project are to:

1. Increase rural incomes and reduce rural poverty through sustainable economic growth, rural development and improved infrastructure in the project area.
2. Increase economic opportunities for the rural poor through participatory improvement of sustainable rural infrastructure, social and gender development and improved local governance in the project area.
3. Closely involve the poor and other stakeholders in prioritizing and planning for project components including the operation and maintenance of rural infrastructure.

4. Provide indirect assistance in developing economic opportunities through partnership arrangements.

APPENDIX E

ROAD PRICE INDEX REPORT

Road Price Index Report

Creating Opportunities for Sustainable Spending on Roads in Uganda

Road Price Index Specialist

June 2011

Road Price Index Report

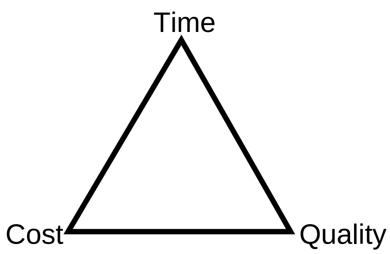
Concept

The 'Road Price Index Specialist' was not an envisaged position on the CrossRoadsProgramme. DFIDU, however, requested that a Roads Tender Price Index was developed in order to measure the effect CrossRoadsProgramme has on construction prices. This report suggests how this indicator can be measured and how to collect and use data for this index. The report also contains the issues which CrossRoads will need to deal with in order to assist the roads industry as a whole.

Discussions were held with local and international contractors in order to formulate a methodology that can be developed into measuring the success of the CrossRoads Programme. The purpose of talking to the contractors was to find out what financial burdens are placed on them when they are undertaking construction works, how they can reduce their tender costs and out-turn costs, and the support they would like to get from CrossRoadsProgramme to enable them to undertake works and contract operations more efficiently. The overarching objective is to enable contractors to deliver quality work, to specification but at reduced costs. The main concerns raised by contractors are shown in Table 1 – Demand, Supply Issues and Recommendations.

Cost, time and quality are the main elements of a construction project. The main question is; which of the three elements is the most important and occupies the apex of the pyramid? Conclusions based on preliminary assessments are as described below.

Time



The reason for time being at the top is that time is an issue throughout the whole process from tender stage through to completion on site. Contractors are often given too little time by the Employer or they are delayed by them. By resolving the time issue, the tender costs and out-turn costs should come down significantly. The World Bank is measuring time taken from bid opening to contract signing and average delay in completion of work.

Cost

To establish a measuring system there is need to decide on which elements to measure and are going to be of benefit to contractors. A baseline will then be determined. It is suggested that this would be a period of time e.g. the previous one or two years. A study would then be undertaken on the tender and out-turn costs of road construction projects undertaken during the time period to establish the baseline.

In measuring various types of construction a balanced picture can be formed to see if tender prices are reducing with the main costs of materials being taken out of the equation. This will indicate whether the difference between the tender and out-turn costs is reducing. Both elements are looking at the cost element of our triangle.

Quality

The quality element of our triangle will increase with better design production, training personnel in their own disciplines and disseminating the training. Increase in site efficiency levels and workmanship standards by using best practices allows the contractor to deliver the project on time, or earlier, with less variation orders.

Issues

The length of the tender period the contractors are given has been identified by the contractors as being insufficient. By not allowing sufficient time, bidders have to make assumptions which increase tender costs. CrossRoads programme will look into the reasons for this and make suitable recommendations and interventions.

Time is the main contributing factor to tender and out-turn costs. An independent review of the current procedures will be made. It appears that the whole process is often constrained by various Ministries and stakeholders. The financial process needs streamlining and all parties involved in the process should meet and discuss a way forward.

Contractors also indicated that having better access to plant and spares would reduce the tender and out-turn costs because so much time and efficiency is lost when an item of plant needs repair. Getting a replacement to site can take days, even if one is available, but if a new part has to be ordered from the manufacturer this can take up to two months to arrive. The availability of plant hire pools in various regions of Uganda will have to be considered by CrossRoads.

Following numerous discussions about whether the Programme can influence the costs of materials, the conclusion was drawn that we have little or no control over price of materials. For example fuel and bitumen products are a major cost to any road construction project with fuel costs being, sometimes, up to 50% of the tender costs.

Table 1- Demand, Supply Issues and Recommendations

Demand side is PPDA, UNRA and other Government Ministries. Contractors, consultants, banks etc are the Suppliers.

Issues	Concerns Raised & Recommendations
Improvements to Detailed Design Stage	• Provide more detailed ToRs to the design consultant • Design consultants to be given realistic timescales to produce the detailed design • Undertake a more comprehensive ground investigation. There should be no surprises on site when materials are found to have insufficient strength and need to be excavated and imported material brought in. Lack of such information causes delays and increases in cost • Investigate the use of better materials giving prolonged road life and lowering future maintenance costs - set up material training courses for asphalt based materials increasing the knowledge within the local industry • Design consultant to consider future road maintenance issues when producing the detailed design • Production of fully detailed drawings for the project with the use of standard details • Consult with contractors at the detailed design phase. They are aware of new materials/innovative methods of working - thus offering value engineering to the project • Develop a more robust technical check system for the design prior to going out to tender. UNRA undertake this process at present but have limited resources to carry out full design checks. All parties should adopt a 'right first time' policy which should reduce the number of claims for inadequate design • Introduce a design consultant's forum and discuss lessons learnt following the technical check.

Contract Documents	• Production of better contract documentation by the design consultant
	  ○ Correct take off for the Bill of Quantities
	  ○ Provide accurate works information
	  ○ Provide an accurate specification paying particular attention to the type of material to be used within the construction process. For pavement layer construction the undertaking of an accurate ground investigation will assist with this.
	Undertaking the above will reduce the neccessity for variation orders thus reducing out-turn costs
	• Production of a better cost estimate – produce an accurate bill of quantities and use recently tendered rates

Procurement	• Seek to reduce the performance bond percentage or at least, when the road is partially complete and the taking over certificate has been issued for that section, release an agreed percentage of the performance bond. At present this is held until the end of the defects liability period. This is a PPDA rule, not UNRA's

	• Seek to have Performance bonds supplied by insurance companies as well as banks – more competition may bring down the costs for local contractors • Seek to reduce the retention percentage of the contract. Or at least, say a percentage up to a value of the contract. 10% which most contracts specify is a significant amount of the contract total • Reduce the time to pay contractors certificates • Increase the tender period – insufficient time given at present. Tenderers have to make assumptions. Increased tender prices usually results if risk has to be included • Reduce time of contract award. This would reduce costs to the Employer as there would be no re-negotiation if the cost of material has increased significantly and the contractors would not have to include price escalation in their pricing. They do now in anticipation of long procurement periods • Increase mobilisation time following contract award • Land acquisition: planning issues and compensation costs have to be resolved prior to contract award. At present time and cost delays result when works commence on site. Lack of valuation surveyors cited as a cause. • Review the tender rules. Whilst having open competition is all well and good it is also causing lengthy delays in getting contracts awarded as contractors who are not in a financial position to undertake the works often lodge complaints/queries causing reviews (not to mention expending resource and cash which could be better used tendering for a project they are more likely to win). There is a need for more realism in contractors' approach to their cash flow. With the help of the guarantee fund CrossRoads can help the industry and attract new entrants to the market.
Planning and Programming	• Produce a road sector programme for a set period of years, say five, containing all Govt contracts i.e. UNRA, DUCAR and Donor's. This gives the design consultants and contractors an indication of forward workload necessary for their resource planning and assists the Employer with budgeting/funding of projects. • Review in detail the programme produced at tender stage and throughout the construction period i.e. that is resourced properly and the use of plant is maximised. No plant should stand incurring hire costs to the contractor. Better access to plant and spares is required • Have agreements in place that when a piece of plant needs repairing parts are brought to site as soon as possible, thus minimising any delay to the project or delay costs to the contractor. Consider having a central store for parts, particularly those having long delivery times fom the manufacturers • Consider only purchasing plant from certain manufacturers to make parts more easily accessible.
Materials / Methods	• Look at the types of methods and materials used i.e. is chip and spray the most economical way of providing a road surface. It may be the most affordable but does the life expectancy of the surface and maintenance costs provide better value for money than an asphalt concrete surface? Whole

	life costing needs to be taken in consideration at the design stage
	• Ensure that the correct type of materials are used and experienced materials engineers employed
	• When on site make sure material specifications are adhered to i.e. crushed stone base and sub-base is crushed to the correct grading. Maintenance issues and increased costs will otherwise arise sooner than anticipated
	• Consider setting up a geotechnical database. This will aid future projects in the same area and it will reduce ground investigation costs in the long run as some data will have already been captured.
	• Inform road users of works in advance and during construction i.e.
	  ○ Work being undertaken
	  ○ Working hours and duration
	  ○ Contact number in case of an emergency

Contract Management and Administration	• Seek to increase the local project management skills with training i.e.
	  ○ Site managers
	  ○ Foreman
	  ○ Skilled Labour
	  ○ Programmers
	  ○ Quantity Surveyors
	  ○ Clerk of Works
	
	• Where timescales are stated in the contract make sure all Parties adhere to them
	  ○ Submission of Certificates
	  ○ Payment of Certificates
	  ○ Programme submission
	  ○ Notification of Variations
	  ○ Submissions and agreement of the costs for the Variations
	  ○ Application for Final Payment Certificate
	
	All of the above aid the contractors' cash flow and also allows the Employer to monitor his costs. Not agreeing variations until the end of the Contract has a serious impact financially on both parties. The Contractor is bank rolling the Employer which affects his cash flow but more importantly the Employer has no idea what his out-turn costs will be and risks exceeding his budget, which may detrimentally effect other projects. In addition, the Employer has to employ the Engineer and Contractor for longer whilst the costs are being agreed for the variations.
	• Seek to have the design engineer undertake the Engineer's duties on site. The company already

	has the knowledge of the project. If issues arise with the design during construction they have the knowledge to undertake the relevant changes, thus not causing too much delay. If another consultant is appointed as Engineer they may well criticise the design. This can cost the Employer money in the long run. A complication to this occurs when donors insist on the design consultant and supervision consultant being different. • Organise events so professional relationships are built between the Employer, Engineer and Contractor.

Training	• Provide training and technical support for:
	  ○ Contracts
	    ▪ Tendering
	    ▪ Programming
	    ▪ Site Management
	    ▪ Contract Management
	    ▪ Contract Administration
	  ○ Business and Finance
	  ○ Land Surveyors
	  ○ Material Specialists
	  ○ Plant Technicians
	  ○ Plant Operators
	• Offer training sessions with other Ministries. For example, the Finance Ministry so they gain an understanding of how the industry works, what processes and procedures are in place and the timescales involved from start of concept through to commencement on site.

Material Costs	• Monitoring individual rates for key components
	  ○ Crushed stone base
	  ○ Asphalt concrete
	  ○ Fuel
	  ○ Labour costs
	To ascertain these costs could prove to be a difficult process as it would depend on how the bill of quantities is priced.

Others	• Previous suggestions regarding improvements to the current procedures have been raised but getting them implemented seems to be the issue. Look at possibility of setting up a Business Development Team within UNRA. • Set up Performance Monitoring procedures for design consultants, engineers and contractors. If poor performance is recorded they should not be looked upon favourably for the next project irrespective of price.

Financial

The financial obligations placed on contractors by the Ministries, Employers and banks at present are affecting the roads industry. Contractors need less onerous conditions to allow them to increase their cash flow and expand their businesses. CrossRoads will assist by:

- Setting up a Guarantee Fund to help reduce some of this burden
- Promote wider use of insurance bonds as opposed to bank guarantees for performance and advance payment bonds
- Encourage PPDA to reduce the length of time for which the performance bond is needed e.g. it should not be required until the end of the defect liability period. Retention monies are to ensure repairs are carried out. Additionally, when completed sections of the road are handed over and the taking over certificate is issued, the percentage of the bond held could be reduced
- Ascertain if the Employers are willing to reduce the amount of retention held
- Express to the relevant authorities how important it is that the contractors certificate is paid on time
- When variation orders are issued make sure that they are dealt with in a timely manner and agree the costs while the construction works are ongoing. This will allow better financial control by all parties and reduce the time spent following completion on agreeing costs.

Profit

A very possible outcome of CrossRoads' interventions could be that instead of seeing a reduction in costs, contractors will become more profitable. This could be viewed positively because if profitability increases contractors will grow and will be in a better financial position to tender for larger projects increasing employment levels and growing the country's economy. When the market is seen as profitable, other actors will also be attracted to participate, hence creating a crowding in effect, more competition and improved service delivery.

Institutional

The local road construction industry will be encouraged to work with the CrossRoads Programme. If the industry is working as a unit to improve and grow then the Demand/Tender Bodies may be more willing to reduce some of the financial safeguards currently used to protect themselves from contractor default. Key groups to enter discussion with are:

- Contractors Association
- Engineering Consultancies both international and local
- Equipment Suppliers
- Material Manufactures/Suppliers

The indices to be developed will measure two purpose level KPIs contained in the logframe. The measurement methodology and the data required to verify these KPIs follows.

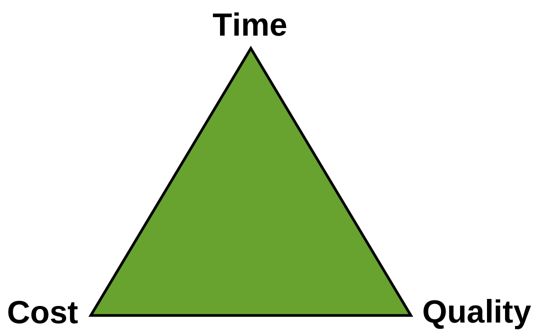
Development of Road Price Index Indicators

The purpose of Key Performance Indicators (KPIs) is to enable a project's success or failure to be monitored against its objectives, during the course of the project. Here we strive to identify a KPI which monitors the Programme's purpose statement, which is to 'improve the efficiency of GoU expenditure on roads'. We need to be able to track this during the lifetime of the project.

CrossRoads is a development project in an emerging construction industry. It is focused primarily on improving the capacity and performance of the private sector suppliers to the roads sub-sector. Consequently, demonstrating the effectiveness of GoU expenditure will be challenging because:

- there are many factors outside the control of the project which have a substantial influence on its 'purpose';
- these factors may not necessarily form a true reflection of the success of the project itself;
- many of the savings from successful implementation of CrossRoads will be seen in the longer term, beyond the duration of this programme.

Early savings may be achieved through changes in the way contracts are financed and in the financial security arrangements used, but these savings are likely to be too small to have any significant impact on the KPI during in the relatively short term of the programme. The success of the CrossRoads Programme should result in far greater savings from a more efficiently functioning industry and the use of better procedures, but these savings are unlikely to become apparent until well after the programme has ended.



When interviewed, contractors in the sector identified time saving during all stages of a project life cycle as a priority to improve the industry and bring down costs.

Benjamin Franklin's "Time is Money" adage is very appropriate in the engineering business; any saving in time will eventually lead, if not immediately, to a saving in cost.

It is recognised that donors want to see immediate cost savings through some type of financial indexation. However, this is not always possible or realistic, as many costs in the construction industry are time related, with long lead times involved.

A clear example of the correlation between time and cost is during the procurement phase, where a reduction in the time taken can lead to more certainty, better planning, and potentially to reduced costs during the construction phase. Long periods between tender submission and award of contract typically leaves contractors in limbo, uncertain of what future investments will be needed and uncertainty in future planning and expansion.

Initially, time savings may lead to increased contractor profitability, rather than cost saving to the government. However, increased profitability encourages firms to expand and new companies to enter the sector, which should eventually promote increased competition and reduce prices. However, this reduction in prices may not be seen over the duration of the CrossRoads Programme. It is therefore proposed that some form of time saving is also included as a KPI, to reflect the long term future savings that should occur as a result of these initial time savings.

Table 1 Detailed weighting structure used by UBoS

Extract from table given by UBoS at meeting 7 June 2011 (See Attachment 1)

Item	Roads paved	Roads Gravel
Cement	22	
Other iron and Steel products	33	
Lime	53	
Diesel	154	278
Bitumen	95	
All wages	109	96
Other Costs (Equipment Hire)	534	626
Total	1,000	1,000

Establishing a Specific Cost Effective KPI

Ideally the KPI should exclude materials from the analysis. However, UNRA contracts for major works include materials within the general rates together with plant and labour.

Ugandan Bureau of Statistics (UBoS) produces Construction Sector Indices (CSI) both for paved and unpaved roads (sometimes referred to as gravel roads in its document). These assume a simple breakdown of material, plant and labour for each type of construction (see attachment). It is unclear precisely how these weightings have been determined, but as they are national standards developed and used by UBoS, they should be considered as acceptable in establishing a base on which to develop KPIs for CrossRoads[4].

Using cost indices (see sample in attachment 2) for the component parts of paved and unpaved roads UBoS, establish their CSI. The figures represent basic escalation assuming no change to labour or equipment. For example, if there is no improvement in planning, financing, efficiency or competition, these indices can be assumed to reflect what would happen to tender prices.

The next stage is to establish the actual costs year on year. Having established a base year value, it is necessary to decide what needs to be measured. Measuring out-turn costs of projects per kilometre will demonstrate the overall benefits of all the improvements in the industry. It would include such things as better administration of contracts and improved designs, which will have a significant effect on the savings made. The alternative is to look at the average of awarded contract amounts per kilometre by type of construction. This should

[4] The data can be accessed from www.ubos.org and follow the link to Construction Sector Indices.

identify improved efficiency of GoU expenditure as a result of CrossRoads development of the private sector. There is however, a potential risk in using this approach. Improved designs and risk analysis including the use of additional Provisional Sums may, by themselves, increase awarded contract prices despite efficiency savings elsewhere. These should therefore be deducted from the contract values for the purposes of this calculation. Currently UNRA's Monitoring and Evaluation Department do not analyse or publicise awarded contract prices but this could be added as a useful standard monitoring tool for UNRA.

Suggested formula

First establish the base difference between Tenders and CSI:

ATP_n = Average Tender Price/km for specific road type in year n

CSI_n = Construction Price index in year n

Next, calculate percentage increase in the average tender prices and CSI between this year and last year:

$$ATP_{(-1 \text{ to } 0)}\ \% = (ATP_0 / ATP_{-1} - 1) \times 100$$

$$CSI_{(-1 \text{ to } 0)}\ \% = (CSI_0 / CSI_{-1} - 1) \times 100$$

The base year KPI (expressed as a percentage) is:

$$KPI_{(\text{year } 1)} = ATP_{(-1 \text{ to } 0)}\ \% - CSI_{(-1 \text{ to } 0)}\ \%$$

Note this can be positive (where average tender prices are increasing at a faster rate than the overall CSI), or negative (which indicates that efficiency savings are being made) [5].

Having established the base year difference, a KPI for year n can be developed as follows:

$$ATP_{(n \text{ to } n-1)}\ \% = (ATP_n / ATP_{n-1} - 1) \times 100$$

$$CSI_{(n \text{ to } n-1)}\ \% = (CSI_n / CSI_{n-1} - 1) \times 100$$

$$\therefore KPI_n = ATP_{(n \text{ to } n-1)}\ \% - CSI_{(n \text{ to } n-1)}\ \% - \text{Base Year KPI (as a \%)}$$

This percentage reflects the improved efficiency of GoU expenditure on roads. However, over 4 years this may be unlikely to show a significant improvement in efficiency as a **direct** result of CrossRoads. Consequently additional indicators are suggested.

Consideration of a time saving KPI

In order to reflect savings in future years two additional parameters are considered necessary as KPIs. Savings can be manifested in a number of ways:

[5] In case of the attachment 2 Paved Roads Feb 10 to Feb 11: ((204/178) -1)*100 = 14.61%

Project Stage	Potential Saving	Potential Advantages	Possible indicator
Procurement Time	Reduced costs of escalation (variation of price) due to shorter procurement time.	Time savings will be made in the evaluation and administrative review stages Increased certainty for industry, leading to better planning and development and less opportunity for corruption during evaluation stage.	Reduction in time taken between tender submission and contract award.
Construction Time	Earlier realisation of benefits from improved roads. Lower price escalation and less increase in cost due to fewer changes in the scope of work and less 'unforseen' extras.	Better, clearer designs, supported by good quality and reliable site investigation data.	The number of days to construct one km of road (averaged from start to actual completion).

These are included in the logframe as purpose level KPIs.

Attachment 1: Construction Sector Price Indices: detailed weighting structure as at Jan-Mar 2006

PG	Produce Group	Buildings – residential formal	Buildings – residential own account	Buildings – non-residential	Roads - Paved	Roads - Gravel	Water Projects
		BRF	BBO	BN	RT	RG	WP
A	Timber	84	100	113			
B	Paint	25		12			
C	PVC & HDPE Pipes	74		3			519
D	Water tanks (non-metalic)	39		6			
E	Burnt clay bricks & tiles	17	100	67			50
F	Cement	97		80	22		50
G	Concrete products	89	190	44			14
H	Steel bars	11	20	24			18
J	Iron Sheets	17					
K	Other iron & steel products	64		27	33		57
L	Electrical wire & cable	52		124			
M	Aggregate	30	120	51			22
N	Lime		40		53		
P	Diesel		10		154	278	
Q	Bitumen				95		
R	CPI-paint		10				
S	CPI-iron sheets		40				
T	CPI-cement		170				

U	CPI-nails		10				
W	All Wages	200	190	154	109	96	119
	Costs covered by prices	**798**	**1,000**	**705**	**466**	**374**	**848**
	Other costs (not covered)	202		295	534	626	152
	Total	1,000	1,000	1,000	1,000	1,000	1,000
	Weights in the whole sector	**15**	**15**	**50**	**10**	**5**	**5**

Source: Uganda Bureau of Statistics

Attachment 2, Page 1: Statistical Release from Ugandan Bureau of Statistics

Attachment 2

STATISTICAL RELEASE

UGANDA BUREAU OF STATISTICS

Construction Sector Indices

January and February 2011

HIGHLIGHTS

Annual changes show that the prices for the Whole Construction Sector (covering material prices, wage rates & equipment hire rates) rose by approximately 14% in February 2011 compared to February 2010 due to:

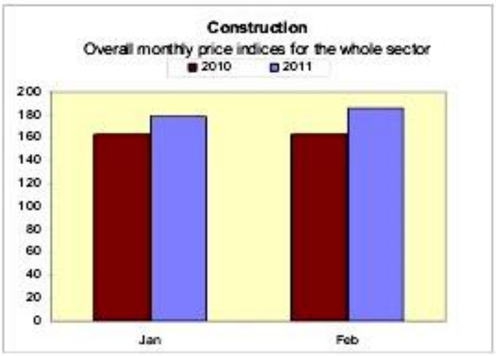
- 15% increase in inputs for both Civil Works and Residential Buildings,
- 13% increase in inputs for Non-Residential Buildings.

Monthly changes show that in February 2011, the average price of inputs for the Whole Construction Sector rose by approximately 4% compared to January 2011 price levels. This followed an increase of approximately 3% in January 2011.

The inputs for residential buildings & non-residential buildings experienced price increases of 4% and 3% respectively in February 2011 mainly due to increased prices of inputs such as Roofing Sheets, and, Burnt Clay Bricks & Tiles. The price of inputs for Roads Gravel and Roads Paved increased by approximately 9% and 6% respectively due to diesel price increases in February 2011 compared to the prices in January 2011.

Basic Headings

In most basic headings (material inputs, equipment hire and wage rates), significant changes were experienced in diesel by 17%, Wage Rates by 12%.and Roofing Sheets by 9%. In February, prices of Bitumen, Paint, PVC pipes and Water Tanks remained stable compared to January 2011 price levels.



John B. Male-Mukasa
Executive Director
19 April 2011

Notes:

1 This release contains composite input price indices for the construction sector and their "basic heading" components.

2 To obtain the percentage change in prices between any two periods, divide the index number in the second period by the index number in the first period, subtract 1 and multiply the result by 100.

3 Comments can be addressed to: Mr Peter Opio, Principal Statistician, Uganda Bureau of Statistics on email peter.opio@ubos.org & phone no: 041 706017 & 078 2 319690 (Mob).The next release will be on Tuesday, 14 June 2011

Attachment 2, Page 2: Statistical Release from Ugandan Bureau of Statistics

Statistical Release Table A

Construction sector price indices

Jan-Mar 2006 = 100

	Whole sector		All buildings		Residential buildings					
					Total		Formal		Own-account	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Year	168		166		160		160		159	
Q1	164	122	162	121	157	115	156	115	158	115
Q2	166		164		158		158		159	
Q3	170		167		160		162		159	
Q4	173		170		163		165		161	
Jan	163	179	161	178	157	169	155	170	158	169
Feb	163	186	161	184	156	176	155	176	157	175
Mar	165		163		158		157		159	
Apr	164		162		157		156		159	
May	166		164		159		159		159	
Jun	167		165		159		159		159	
Jul	170		167		160		160		160	
Aug	171		168		161		162		160	
Sep	170		167		160		162		158	
Oct	172		169		162		164		160	
Nov	172		170		162		165		159	
Dec	175		173		165		166		164	

	Non-res buildings		Civil works		Roads paved		Roads gravel		Water projects	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Year	170		177		185		173		165	
Q1	165	124	172	127	179	132	167	128	163	117
Q2	167		174		181		170		163	
Q3	172		181		190		177		166	
Q4	175		182		191		179		168	
Jan	164	183	171	185	179	192	166	183	162	172
Feb	164	189	171	196	178	204	166	200	162	178
Mar	166		173		181		168		163	
Apr	165		171		178		167		162	
May	168		175		182		171		164	
Jun	169		175		183		171		163	
Jul	171		180		189		177		166	
Aug	173		181		190		177		167	
Sep	171		181		190		177		166	
Oct	173		183		193		179		167	
Nov	174		183		192		179		167	
Dec	178		182		190		180		169	

Source: Uganda Bureau of Statistics

Attachment 2, Page 3: Statistical Release from Ugandan Bureau of Statistics

Statistical Release Table B

Basic heading price indices, CPI Rescaled and Equipment charge out rates and cement quantities

Jan-Mar 2006 = 100

	Timber		Paint		PVC/HDPE pipes		Water tanks		Burnt clay bricks & tiles	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Year	233		134		138		112		195	
Q1	234	161	126	100	140	92	108	79	196	157
Q2	231		131		138		108		199	
Q3	233		136		137		112		191	
Q4	234		143		137		119		193	
Jan	234	240	130	150	140	137	108	119	188	233
Feb	234	243	124	150	140	137	108	119	200	239
Mar	234		125		140		108		201	
Apr	231		125		140		108		201	
May	231		133		137		108		200	
Jun	231		136		137		108		196	
Jul	233		136		137		108		196	
Aug	234		136		137		108		196	
Sep	234		137		137		119		180	
Oct	234		137		137		119		183	
Nov	232		145		137		119		183	
Dec	237		145		137		119		212	

	Cement		Concrete articles		Steel bars		Roofing sheets		Other iron & steel	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Year	134		153		147		178		168	
Q1	128	95	155	101	120	105	172	123	162	118
Q2	130		152		150		178		169	
Q3	137		153		158		180		171	
Q4	142		152		158		182		169	
Jan	123	142	154	152	119	157	168	176	161	175
Feb	123	144	155	151	121	159	173	192	162	179
Mar	138		156		121		175		162	
Apr	133		152		142		176		162	
May	130		152		155		179		174	
Jun	128		152		154		179		173	
Jul	128		152		155		179		173	
Aug	142		153		160		179		171	
Sep	140		153		160		183		170	
Oct	141		152		159		183		170	
Nov	142		152		157		184		170	
Dec	142		152		157		178		169	

Source: Uganda Bureau of Statistics

Attachment 2, Page 4: Statistical Release from Ugandan Bureau of Statistics

Statistical Release Table B (continued)

Basic heading price indices, CPI Rescaled and Equipment charge out rates and cement quantities

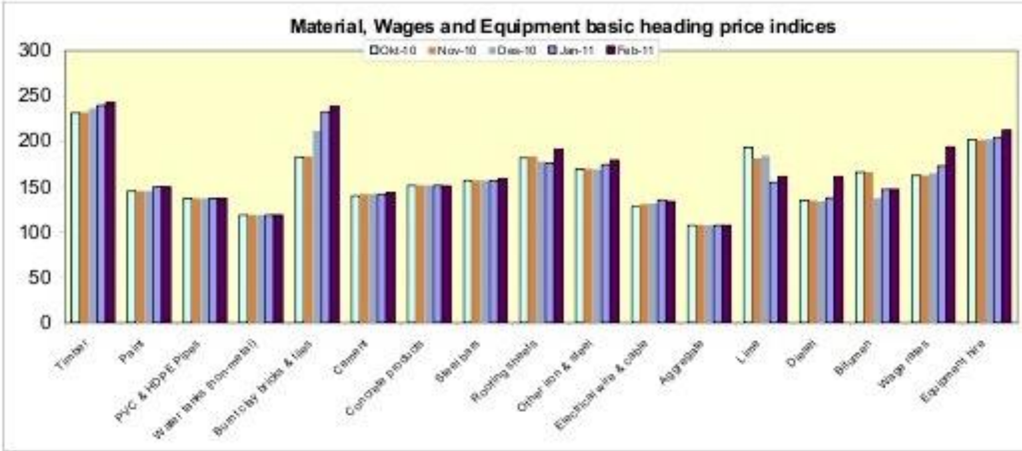
Jan-Mar 2006 = 100

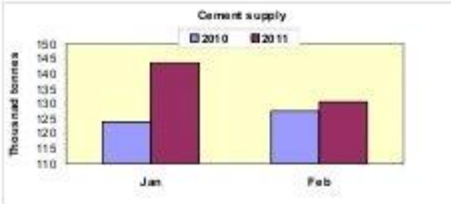
	Electrical wire & cable		Aggregate		Lime		Diesel		Bitumen	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Year	122		109		172		128		154	
Q1	113	90	111	72	152	106	118	100	150	98
Q2	117		109		164		129		153	
Q3	126		109		184		132		156	
Q4	130		108		186		135		157	
Jan	113	136	117	108	152	155	116	138	150	147
Feb	113	134	108	108	135	162	116	162	150	147
Mar	113		108		170		122		150	
Apr	113		110		160		127		152	
May	113		110		162		129		152	
Jun	126		108		170		130		154	
Jul	126		110		189		132		156	
Aug	126		110		182		132		156	
Sep	127		108		181		132		156	
Oct	128		108		194		135		166	
Nov	131		108		181		135		166	
Dec	132		108		184		134		138	

	Labour wage rates		Equipment charge out rates		CPI (rescaled) 2006 Q1 = 100		Cement quantities ('000 tonnes)	
	2010	2011	2010	2011	2010	2011	2010	2011
Year	153		198		144		1489	
Q1	144	122	196	139	143	101	364	274
Q2	150		191		143		330	
Q3	155		202		144		399	
Q4	164		202		147		395	
Jan	144	173	196	205	143	150	124	144
Feb	144	194	196	212	144	153	128	131
Mar	145		195		143		113	
Apr	147		188		144		111	
May	151		193		143		107	
Jun	151		193		143		112	
Jul	154		202		143		137	
Aug	154		203		144		134	
Sep	156		202		145		128	
Oct	163		202		145		130	
Nov	163		202		147		121	
Dec	165		203		149		143	

Source: Uganda Bureau of Statistics

Attachment 2, Page 5: Statistical Release from Ugandan Bureau of Statistics





Explanatory Notes on the Statistical Release

The data presented in this Statistical Release are indices designed to show price changes in each period. On page 1 there is a short commentary highlighting the main changes observed.

The graphs on page 1 are derived from Table A "Construction Sector Price Indices" on page 2 of the statistical release. The first graph shows the price indices for the whole sector for each month for the two years. The second graph shows the monthly average price indices in each month for the whole sector and the major sub-sectors.

The charts on page 5 above show the indices for the latest five months for each basic heading. The Consumer Price Index (CPI, rescaled) and the quantity of cement for the domestic market are also shown. (Rescaling means multiplying or dividing the original series by a constant factor so as to compare with the current trends in say CPI)

If the bars in the charts are at almost the same level, then they indicate very little (if any) change in prices. An increase in the height of the bars indicates an increase in the prices while a reduction in the height implies a decline in prices.

Annex 1: Notes of Meetings Held

Meeting with: **Trevor Snellgrove, Monitoring and Evaluation Advisor**

Date: **06th June 2011**

Currently working sector-wide and not yet tackled UNRA. He is of the impression that there is an insufficient record of information and consequently its analysis.

Meeting with: **Mathias Ofumbi, Monitoring and Evaluation Manager, UNRA**

Date: **06th June 2011**

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Data captured from Supervision Consultants' Monthly Reports, giving Original Contract Value, Value of Work to date, predicted final costs and (sometimes) physical completion percentage.

Trends are reviewed quarterly and reported to the Ministry. *However, after reviewing these documents, the information provided was unsuitable for developing our KPI.*

Awarded Contract prices are not analysed as a routine.

Annul Reports give cost per km indirectly i.e. lengths and costs given.

A Central Management System is being developed based on a full Bill of Quantities, with data fed from spreadsheet prepared by supervision consultants into the system. Measurements will then "red-flag" problem quantities and large Variation Orders. The system starts at the project planning stage through to completion. *(It would be good to hear more of this system, as it sounds extremely ambitious. Concern whether the data will be usefully used, with the detail intended for entry – I DO NOT BELIEVE THE WHOLE LOOP BETWEEN BUDGET AND BANK PAYMENTS CHEQUE IS INCLUDED).*

With respect to the needs of CrossRoads, Mathias Ofumbi felt that CrossRoads should use the final out-turn costs, rather than tender prices. He was unconvinced that monitoring tender prices would show greater efficiency/competition in the industry, because the lower the tender prices, the greater the desire for claims and Variation Orders during construction.

Tender prices, in his view, are heavily influenced by "middle men" who could be avoided with proper accounting and documentation. In his view this is an area that should be tackled.

Meetings with: **Enid Kansiime, Monitoring and Evaluation Assistant, UNRA**

Date: **06th June 2011**

Provided extract reports form Supervision Consultants' monthly Reports. Sample of analysis given.

Meeting with: **Nigel Lightbody, WSP TA to UNRA.**

Date: **06th June 2011**

Currently working with design consultants to improve designs and quantify risks. Given limited soil surveys, he advocates risk analysis by designer and mitigation through the use of provisional sums, greater use of a mass-haul approach to quantify work and hauls needed.

The aim is to more clearly define risks and take measures to control additional costs during construction. This process may increase the costs of tenders or more correctly increase contingencies within tenders. Care will be needed when using tenders costs, as to whether Provisional Sums (essentially contingency items) are included in the contract value. If they are, tenders prices could be expected to rise.

The use of additional Provisional Sums will increase tender prices. If the KPI uses tender prices to monitor reduction in cost, then it will have to exclude provisional sums.

Meeting with: **Ugandan Bureau of Statistics**

Date: **07th June 2011**

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Construction Sector Indices (CSI) for paved and unpaved roads have a fixed component for materials plant and labour (see attachments). Each month, indices for materials, plant and labour are applied to the basic formula. Comparing the indices produced shows price escalation of work assuming no improvement in efficiency. At first glance, if this was to be used to establish "overall" plant labour and material inflation over the period and compared to actual changes in average tender prices over a year, it would give a good indication of any effective saving over the period.

Very useful meeting, well prepared and worth a longer discussion.

APPENDIX F

PLANT AND EQUIPMENT REPORT

Plant & Equipment Report

Creating Opportunities for Sustainable Spending on Roads in Uganda

Equipment Specialist

June 2011

Introduction

In order to review how CrossRoads should move forward in respect of improving the local roads construction industry's access to plant and equipment the Secretariat considered it to be necessary to add an Equipment Specialist to the team of short term experts.

During F/Y 2009/10 GoU doubled UNRA's road network length by reclassifying 10,000km of district roads. UNRA is now accountable for the maintenance and management of approximately 20,000kms of national roads of which 3,200km (16%) are paved and 16,800km (84%) are gravel or earth roads.

Traditionally, maintenance of the road assets has always been in the domain of the public sector through force accounts. Despite some attempts to transfer part of this responsibility to the private sector, UNRA continues to rely heavily on its force account units for much of its road maintenance activities. Despite the National Construction Industry Policy advocating otherwise, at the recent launch of the Policy on 6th May 2011 the Minister of Works and Transport stated that it was necessary to **strengthen** force account operations for the time being until capacity was built amongst the local contractors to undertake the required road maintenance.

By continuing to operate force accounts, the public sector paradoxically prevents the private sector from entering the road maintenance sector, since under force accounting, full mechanical costs are not included. Therefore, by definition, force accounts will always appear to be more cost effective than the private sector.

However, while force accounts may appear to be cost effective, it is widely understood that it does not represent value for money, since plant reliability, plant utilisation and therefore efficiency is severely lacking. This lack of efficiency is a direct contributing factor to UNRAs lack of capacity; where the 2009/10 budget was significantly under spent.

CrossRoads Approach

To address this purported lack of private sector maintenance contracting capacity CrossRoads intends to establish the most appropriate way forward for the private sector to gain access to plant and equipment and to be able to undertake these activities. There are two alternatives to investigate:

- Government/UNRA's capacity to provide reliable, value for money plant and equipment services to support the whole road maintenance sector in Uganda;
- The private sector's capacity to provide reliable, value for money plant and equipment services to undertake road maintenance in Uganda

Alternative 1 – Strengthen Public Sector Equipment Capacity

An investigation was made of UNRA's mechanical services capacity:

UNRA Mechanical Services Overview	• Head Office in Kampala, under the Operations Directorate • Six Regional Centres • 22 District Workshops • Managing a preventative maintenance and repair programme of a fleet of 814[6] plant and vehicle units handed over from the MoWT.
UNRA Mechanical Services Characteristics	• Under-investment in workshop tools and equipment due to GoU policy to eliminate force accounts and hence no use of URF funds to buy equipment • Low staff productivity and quality of work • Weak cost capturing mechanisms (full life costs are not recovered) • Lack of strategic direction – lack of policy on the way forward • Lack of institutional and individual empowerment • Lack of customer focus • Lack of stakeholder perception • Inadequate preventative maintenance - absence of an Equipment Management System (EMS) for MoWT/UNRA equipment • Obliged to follow public sector orientated PPDA Regulations • Low staffing levels

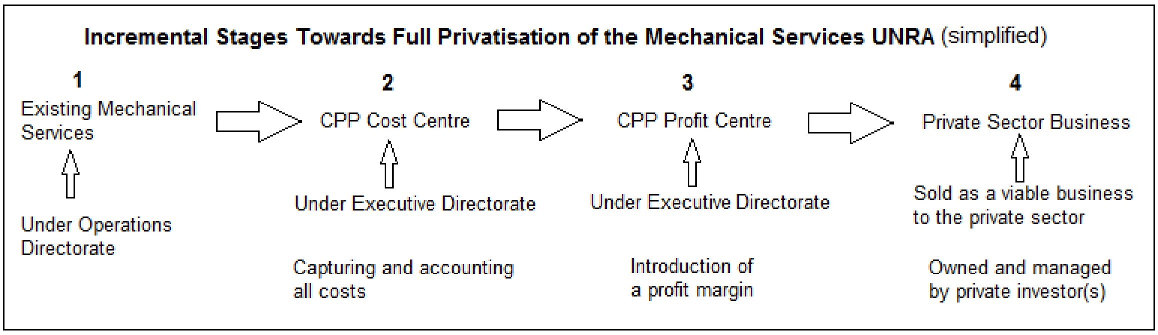
UNRA Mechanical Services External Environment	• Private sector apparent lack of capacity – shortage of reliable, cost effective plant and equipment
	• Conflicting messages regarding force accounts; districts apparently to be given/receive 160 mechanical units predominantly for their force account units – uncertain strategic direction for UNRA
	• Lack of adequately trained plant operators and mechanics in private sector
	• UNRAs low capacity resulting in a negative impact upon the:
	    o construction industry
	    o road maintenance activities
	    o road rehabilitation activities

Contained in the following sections is an overview of the process that could result in the commercialisation of MoWT/UNRA's plant holdings by the formation of an equipment plant pool using, predominantly, existing plant operated by UNRA. This will require further study/investigation during the subsequent phase of the CrossRoads Programme so that the most appropriate solution is selected and then implemented.

[6] UNRA Summary of Equipment and Vehicles, 11-05-11

Rationale for Setting up of a Commercialised Plant Pool (CPP) within UNRA

The following figure summarises the incremental steps from UNRA's existing mechanical services function (1) through to full privatisation (4). Each step has its own unique financial, business control and commercial culture.



As stated in the 2010/11 UNRA business plan, UNRA aspires to '*increase commercial operation of subsidiary businesses and force account to establish true operational costs*[7]'.

This is reinforced by the National Construction Industry Policy, where the GoU requires to initiate the establishment of an Equipment Plant Pool - this could be either stage 2 or 3 above.

The main rationale for the CPP initiative is to increase the availability of cost effective, reliable plant hire. Without operating a CPP, the mechanical component of all civil works is artificially subsidised. This has and will continue to provide a barrier for the private sector entry or growth. The introduction of a plant leasing rate must therefore reflect true operating and owning costs in order to provide a commercial level playing field.

Again, as stated in the National Construction Industry Policy, the net revenue from the leased plant and equipment will go directly to the Consolidated Fund. While this may fit in with the current fiscal obligations, revenue generated from the leases should go directly into UNRAs budget (or the CPP cost centre) as a means of replacing equipment as it ages, not to the Consolidated Fund. This would apply correct commercial pressure on the business to become a sustainable (and saleable) business. This plant replacement fund should be managed by a commercialised Mechanical Services.

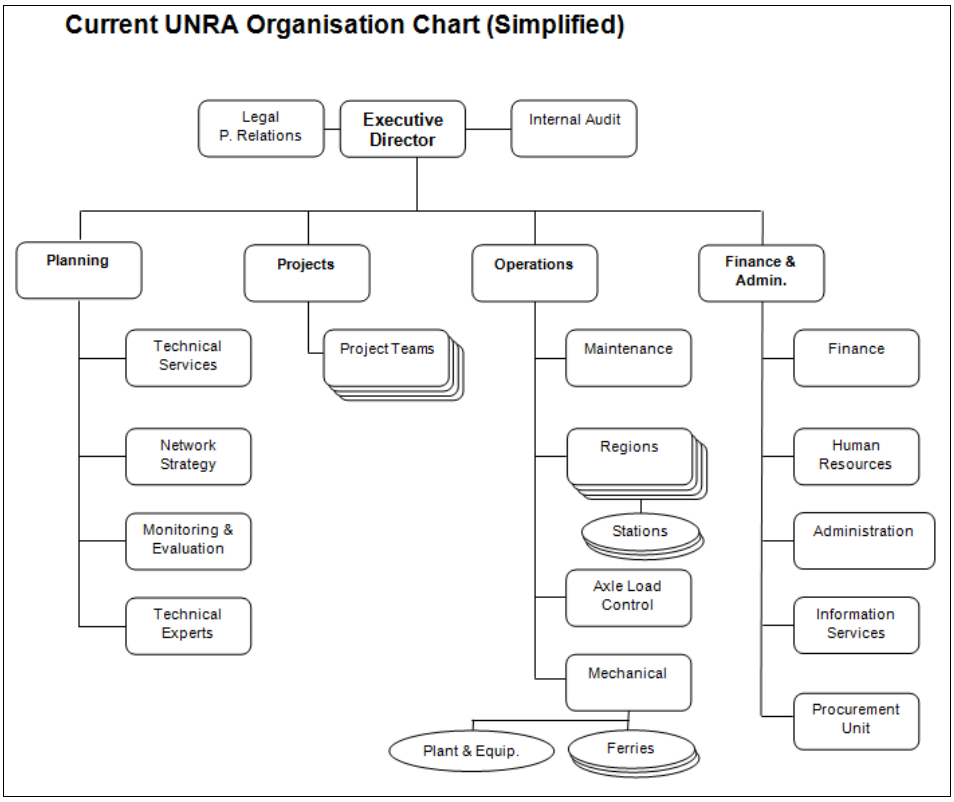
The management of the CPP could be drawn in from the private sector. Clear directives must then be formally stated in a legally binding contract and operational interference from either the GoU or UNRA must cease.

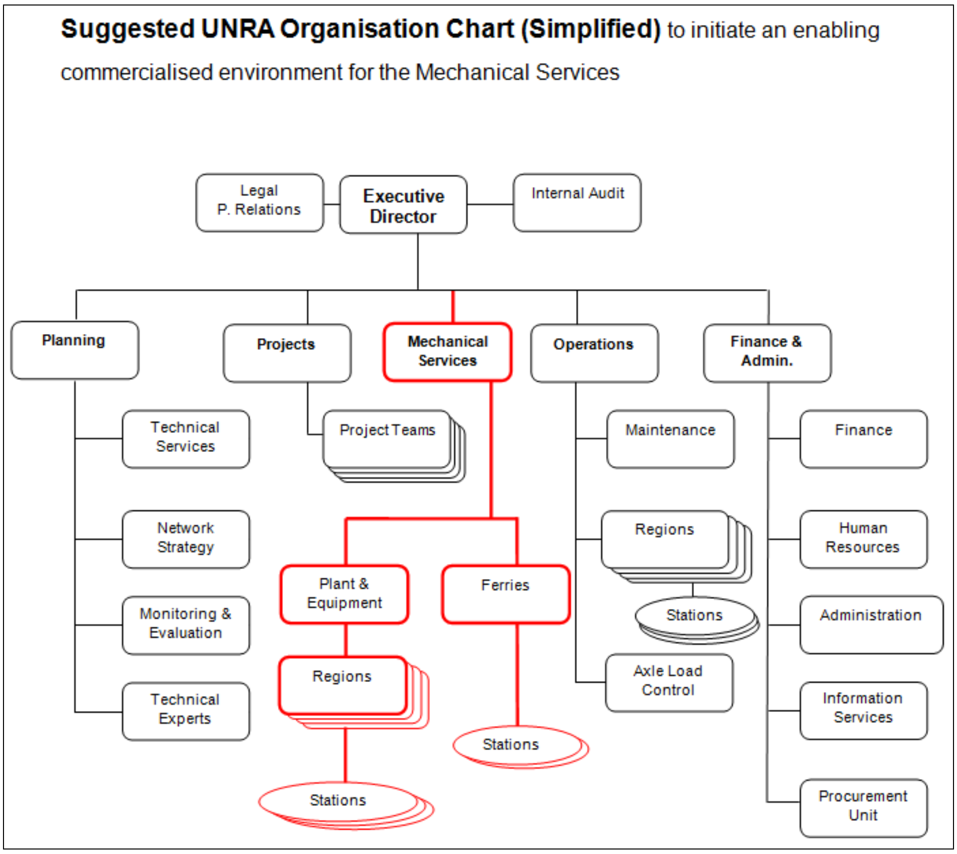
Under this scenario the Mechanical Services Dept/Unit can be considered as a commercial business, albeit under the control of UNRA.

At present, the Mechanical Services is a unit within Operations Directorate but due to the importance of Mechanical Services and in order to move the commercialisation process forward, its status and level of responsibility needs to be raised to that of Directorate under the control of the Executive Director. UNRAs organisation chart, showing these changes are

[7] UNRA Business Plan, (2010/11), Section 5, Directorate of Operations, pg 21

presented below. **(Note that current organisation chart includes the Internal Audit as a Directorate)**.





The conversion of the mechanical equipment and plant component of UNRA into a CPP, a commercial equipment renting/leasing firm (which in the long term, could be owned and operated with public, mixed or private shareholders) is mainly motivated by the need for enhanced efficiency in implementing road maintenance programmes and to provide an enabling environment for the private sector.

This reform has a clear political character; it should be backed by strong government commitment, because often the main obstacles to overcome are of a political and not a technical nature. The success of the reform depends on the existence of an enabling macro-economic environment, which will lead to progress by incremental steps.

Institutional reform is complex. It is frequently about the application of a set of relationships, systems and procedures that allow the Road Fund budget to be used in the most effective way. The benefits of providing reliable funding are more likely to be realised if those employed in the sector are adequately trained and motivated. Likewise, reforms in the public sector will result in greater benefits if the private sector is able to fulfil its roles within the public sector's institutional arrangements.

The setting up of a CPP has three main rationales, all of them aimed at enhancing the use of resources allocated to road maintenance:-

- Increasing the efficiency of equipment-based force account teams by improving the management of their equipment by using commercial management systems and methods which have been successful worldwide in the private construction sector;
- Facilitate the development of domestic contractors involved in road maintenance activities by providing them with reliable cost effective rented/leased equipment; and
- Help dispose of plant and equipment which is beyond its economic life, or those under-utilised units of plant, since their owning costs apply commercial pressure so to do.

The creation of a CPP has a number of benefits:

- It will allow the Directorate of Operations in UNRA to concentrate on its core functions of planning civil works, policy formulation, regulation and management of the road network
- It offers improved value for money by maximising performance from existing equipment
- It will help provide healthy competition with the emerging private sector, helping to keep plant hire rates down
- It allows the true cost of equipment to be built into budgets and therefore realistic budgeting occurs
- It encourages development of private sector SME's (small and medium sized enterprises) in the road maintenance sector by the provision of reliable equipment to both UNRA and private contractors
- It allows better maintenance of the fleet by allowing Plant Pool mechanical engineers to be independent of plant users and receive better remuneration.

The significance of any institutional, organisational, budgetary or commercial style change to the existing UNRA Mechanical Services organisational structure and ethos in order to facilitate this, as efficiently and as effectively as possible, should not be underestimated. Based on preliminary findings, most UNRA staff have little or no experience in the private, commercial sector as most have come from MoWT. Any changes would need to be heavily supported by in-house and external training and development.

An overview of typical desired commercial qualities and characteristics, which may be expected of the CPP, are represented below in tabular form:

Strategy	• Core strategy to be customer/market driven, supported by clear measurable performance objectives. • Long term goals and informed planning in place. • Offer a plant contract hire to the UNRA (the primary customer) and to private contractors • Plant standardisation and disposal strategies to take into account full life costs. • Cost based hire rates (but in the long term, responding to private plant hire firms hire rates if appropriate). • Contract out for plant and repair work where more economic to do so. • Develop and train plant operators and mechanics for the whole Industry
Structure	• Central control of all plant provision and maintenance. • CPP operating as an (semi)autonomous entity. • Plant maintenance treated as a separate cost centre within UNRA. • Centralised specialist work or sub-contract where appropriate.
Style	• Pro-active and reactive. • Operated as a commercial hire firm, i.e. a non-bureaucratic approach. • Tight management to reduce costs and increase income. • Customer focused - treat UNRA Operations and private contractors as ‘customers’. • Market surplus services and capacities to third party contractors (not necessarily involved in road maintenance). • Ability to answer quickly to market demands. • Bright, forward-looking and optimistic.
Systems	• Full use of resource management tools in managing for example, plant utilisation, availability, fuel consumption and plant maintenance costs per hour. • Commercial management information systems to capture all costs etc to be separate but compatible with UNRA. • Individual plant costing on whole life basis. • Regular checking of hire charges and costs against contract hire, spot hire, private workshops etc.
Staffing	• Lean, professional, efficient and highly motivated staffing. • Significant HR development and staff training (at all levels) where needed. • Self-financing, easily administered performance related incentive scheme, based on plant availability etc. • Job empowerment, enrichment and enlargement where necessary.

During the course of the transitional process, UNRA's mechanical services will be required to overcome one of the biggest hurdles for any public sector parastatal by moving away from being a largely inward-looking 'service department', to becoming an outward-looking customer-focused business. The CPP will need to capture and manage its costs and overheads and must be aware of the market and the macro-economic environment in which it operates.

The Commercialised Plant Pool Cost Centre

Since setting up the emergent CPP as a Cost Centre is an essential transitional step, the process and its qualities need to be clarified and stated.

The success of setting up a CPP relies to a large extent upon the devolution of powers and authority to the levels appropriate to the responsibilities of the individual. The transitional process from service provider to commercial business can be achieved by progressively applying commercial principles and practices to the Mechanical Services, as well as certain supporting functions within UNRA Head Office, and these practices aim to bring about clearer levels of accountability for performance. The first stage in this transition is for the Mechanical Services (broken down into all Regions) to become and operate as Cost Centres. A Cost Centre is a business unit, with a defined business purpose and objective(s) with output targets against which its performance is measured and judged.

- Its financial performance is judged on the attainment of cost recovery.
- The definition of what costs are to recovered needs to be defined, particularly regarding overheads.
- It is generally captive to the parent organisation in that it cannot trade outside the organisation, and other units within the organisation are obliged to use its services.

The key changes necessary to achieve Cost Centre status related to the devolution of decision making are:

- Defining its objective and performance indicators
- Devolving decision making to more appropriate levels related to expenditure, purchasing and employment of staff
- Introducing an accounting system which will identify and apportion costs
- Introducing more appropriate systems for the management of physical assets to include equipment, procurement, and spares stock control and distribution as would be found in a commercial organisation.
- Revising other supporting processes and procedures which reflect business principles.
- Finally, developing a management culture based upon levels of accountability, which also reflects commercial reality.

Initially, decision making is interpreted to imply the authority to incur expenditure. In the context of a CPP, it includes the authority and power to affect all the operations of the business unit. This includes the employment of staff, determining terms of employment, purchasing goods and services, and devising and implementing processes and procedures to achieve the business objectives of the unit. These are features that even the UNRA do not enjoy.

The business objective at Regional level needs to be carefully defined to ensure it is directly related to the objective of UNRA and, together with the output of all the other districts, contributes to its total achievement. Related to the Regional objective are the means of measuring achievement through performance indicators. This will affect the mechanism of routine performance reporting which will need to be put in place.

The CPP Cost Centre must be able to identify its controllable costs, and at the same time it is necessary to review the financial autonomy of the manager to improve the extent of that control. The next step is then to start managing the costs against the unit's objective of seeing them reduce whilst efficiency in output delivery and productivity increase.

Whatever decision making powers are devolved to the Cost Centre, the principles of good governance must apply. This latter item means that the necessary checks and balances need to be in place at each stage of devolution, allowing decision making within certain boundaries and with qualifications that ensure proper control. All recommendations should be reviewed on an annual or phased basis to keep the powers and authority in line with the management task.

At the end of the transitional process the CPP should be able to appoint and discharge any employee under its control (in reality, practice needs to be gained and therefore this initial delegated authority should be restricted to the lower end of the grade structure). In the experience of the consultant, in is not envisaged that at the Cost Centre stage that the CPP would be involved in determining rates of pay, although certain conditions would be included, such as where the place of employment is to be. However, we must assume, and prepare for an incremental devolvement of this responsibility.

The financial objective of a Cost Centre is cost recovery i.e. its own operating and overhead costs plus an element of UNRAs Head Quarters overheads. This is inherently a difficult task; however, a percentage can usually be calculated to initiate the process.
Procurement and disposal are major components of CrossRoads and is currently undergoing investigation. It is clear that a more commercially appropriate, timely system needs to be introduced.

Devolution of the Commercialised Plant Pool under UNRA to the Private Sector

The long-term future options may involve a political view in dealing with the transfer of strategic assets to the private sector. Determining whether the Government of Uganda wants to go to full privatisation, or to partially opening equity availability to private shareholders, or involving private operators only in the management, would need to be determined.

Possible future options to be considered are likely to be:

- Wholly Government owned private company created under the Ugandan companies act with assets and staff transferred from the parent organisation;
- Partial Government holding of the fully commercialised business for strategic reasons including possible share options for interested bodies such as staff and unions;
- Inviting joint venture partners for partial ownership on a controlling interest or other percentage basis; or
- Selling off the complete operation on a highest bid basis with little or no pre-conditions.

Matters such as how the reform may be implemented will need to be determined. One has to be aware of the time needed to establish the new legal status, designate the board of directors and chief executive, set up the hiring of candidate for management contracts or for share purchases, to transfer, reassign the personnel, transfer the assets etc. In order to review all implementation issues, the typical successive steps might be:

- Granting legal commercial status and autonomy;
- Involving private operators in management; and
- Partially or totally selling the equity to private shareholders.

The model to be adopted needs defining in terms of the Government of Uganda's direction towards privatisation and divestment.

In order to determine the need for, the viability and magnitude of the changes that need to be undertaken to create a CPP a number of studies need to be undertaken. The first area for analysis will be of UNRAs existing fleet.

Review of the Existing Road Maintenance Equipment Fleet

A list of UNRA's current fleet inventory is available from UNRA's Mechanical Services. However, it should be noted that no formal transfer of plant assets has occurred from MoWT i.e. even though UNRA is an Authority, it does not **own** the plant and equipment.

The unit list of operational equipment under UNRAs custody is updated monthly from the returns compiled by the individual Stations in each region. However, it appears that the information is not easily accessed or manipulated by UNRA Engineers to give useful managerial tools.

Three KPI's are produced; plant availability; plant utilisation; and fuel consumption are determined and recorded. These KPIs are aggregated by hand periodically or when requested by UNRA head office.

While recorded plant availability at between 70% and 75% is reasonable considering the capacity constraints, plant and equipment awaiting disposal is not included in these calculations, therefore there is no commercial pressure to dispose of old or obsolete plant.

Despite the NCI Policy statement to phase out force account activities it is understood that a UGX 259.41 billion contract (supported by a UGX 200 billion loan from the Government of China) for Chinese plant and equipment, 70 % of which will be used for routine maintenance and 30% will be used for periodic maintenance, will be procured for District Councils to use on the DUCAR network. All operational costs, including preventative maintenance, repair and the associated spare part support mechanism are to be financed by the MoWT.

While this injection of plant and equipment may be welcomed, it does not appear to consider the lack of local after-sales service, expertise in Chinese manufactured plant nor any standardisation policy. It is not clear whether this Chinese plant and equipment will be the embryonic establishment of a CPP.

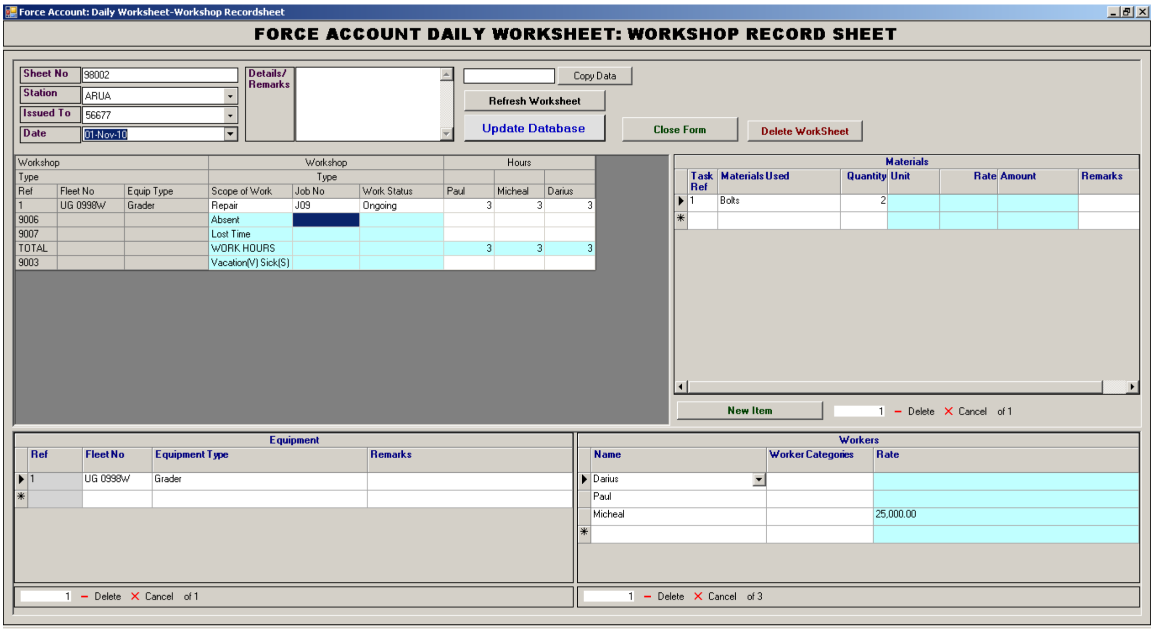
Reliance on donor funded projects to provide replacement equipment aggravates the lack of allowance for replacement costs and results in progressive deterioration of fleet condition. The result is an old, largely obsolete poorly maintained fleet whose lack of reliability or availability significantly impairs road maintenance programmes.

In addition, UNRA's force account units will be contracted to do much of this work which will have a negative impact on the private sector. It appears GoU are letting a golden opportunity to create their CPP slip through their fingers, and this despite the NCI Policy, launched only in May this year, stating that it is GoU intention to create such a Plant Pool.

Equipment Maintenance System (EMS)

There is an absence of any formal Equipment Maintenance System (EMS) brought over from the MoWT. That's not to say that plant preventative maintenance (PM) does not operate; mechanical staff attempt to follow the manufactures schedules for PM, however, the workshop paperwork systems are completely absent.

UNRAs recently introduced Force Account Costing System, which appears to be intuitive and well designed, has the potential to capture more pertinent workshop cost information. The image below gives an example of the recently introduced workshop record sheet which could be further developed.



There appears to be sufficient flexibility with this new system to give UNRA a sound cost capturing mechanism. It is clear, however, that this system may need to be developed in order to operate UNRAs mechanical workshops on a more commercial basis. The workshop management and supervisory staff will be required to follow commercially viable management tools and paper systems to assist them in overseeing their business such as:

- Equipment database
- Equipment workshop booking-in calendar
- Service overdue notice
- Workshop loading (set against total man-hours available)
- Job-card generation
- Job allocation (allocating tasks to mechanics etc) and progress
- Equipment repair archive database
- Job costing/analysis
- Outsourcing/sub-contract work
- Service/repair records

- Generate weekly, monthly, quarterly and annual reports. Typical examples are given below:-

MONTHLY
- Equipment on Rental

QUARTERLY
- Summaries of all performance & KPIs
- Lease / Rental Billing Invoices
- Profit & Loss Statement

BI-ANNUALLY
- Parts Re-Order List
- Equipment performance by Region
- Equipment costs by Station
- Total Equipment Ops. & Maint. costs

ANNUALLY
- Executive Report
- Annual Equipment Inventory
- Total Equipment Ops. & Own. costs
- Equipment replacement List
- Equipment Disposal List
- Budgetary requirement
- Stock Physical & Value Inventory
- Equipment Rental Income (UNRA)
- Equipment Rental Income (External)
- Equipment Rental Cost (External)

The quality of equipment repair management directly affects productivity. To this end, clear policy guidelines and systems need to be put in place. Should a CPP be considered the way forward, then it will be necessary for an abridged EMS to be developed and introduced to improve equipment repair and maintenance.

Existing Workshop Capacity

The ability for UNRA to introduce a preventative maintenance programme through an EMS will require a baseline survey to verify the existing capacity of UNRA's Regional and Station workshops. An analysis of the following components will need to be undertaken:-

- Workshop hand tools
- Special tools
- Workshop equipment
- The workshop sizes (number of bays) should be compared with the optimum industry standard
- Spare part stock levels
    - Fast, medium and slow moving item analysis
    - Procurement and allocation procedures
    - Supply chain management
- Number and structure of workshop staff[8]
    - Experience (in years)
    - Skill levels (training needs analysis)
- Health and safety
- Environmental safeguards

[8] A ratio of 1 mechanic to 5 machines is the norm for Africa.

UNRAs Standardisation Policy

A standardisation policy is seen as a critical component of any commercialisation success. According to the MoWT road equipment review (2008) and UNRAs records, a sample of 300 pieces of plant and equipment were made up of 35 individual different makes and manufacturers. A plant pool comprising of this number of different makes is simply not viable.

Historically, plant and equipment procurement has been initiated by the MoWT following the PPDA regulations. Initial findings confirm that no road sector specified standardisation policy exists; all procurement follows the PPDA 2003 regulations[9] which encapsulate all GoU procurement. However, there may be sufficient latitude within the regulations to embed a bespoke and robust Standardisation Policy for a future UNRA CPP.

A well recognised World Bank analysis of the total costs to purchase, maintain, train operators, warehouse spares, and provide tooling has demonstrated that it is more economical to pay up to 32% more for equipment to conform with maintaining a standard equipment fleet than to procure cheaper non-standard models.

The benefits of having a high degree of standardisation in equipment are principally cost reduction and improved equipment availability.

In the short-term, a practical solution to alleviate the problem a little may include relocating plant and equipment from region to region so that there is some degree of standardisation in each of the 5 regions.

Notwithstanding that PPDA Regulations may allow for an element of standardisation, any requirement by GoUs Development Partners could override this. For a Standardisation Policy to be put into place, the DPs will need to be encouraged to relax their procurement policies and procedures to allow for standardisation to occur. A possible solution may include the DPs accepting a policy which restricts procurement to a limited number of previously approved manufacturers (limited for example to 3 manufactures).

Spare Part Supply Chain Management

Based on initial findings, the length of the procurement cycle for spare parts is currently the greatest impediment to a responsive system more because of the way it is operated than the system itself.

In an attempt to put the equipment maintenance and repair costs into perspective; during its useful life, a piece of equipment will incur roughly as much expense in spare parts consumption as its original purchase price. Assuming an initial delivery price of US$70,000 and an economic service life of 10 years, we require US$7000 per year to repair and maintain a 135HP motor grader – or $6 an hour (assuming 200 days a year, 8 hours per day). This figure does not include fuel or operator costs. This $7,000 or UGX 16,700,000 per year needs to be factored into the budget to provide funds to procure spare parts, oils, mechanics labour and overheads.

Initial findings indicate that there is a bottleneck to procurement for relatively inexpensive spare parts. For example a medium moving item, such as a clutch pack takes a disproportionate amount of time to procure, since it would exceed the current UGX 2 million

[9] Public Procurement and Disposal of Public Assets Regulations (2003), Section 266, pg 636

upper limit. The resultant delay, would keep the equipment unit in the workshop while the drawn-out tendering process got underway. This delay would directly affect the unit's availability and its utilisation (commercially loosing UGX millions per day in income). The most obvious quick solution to this bottleneck, without changing the policy framework would be to raise the current procurement threshold of UGX 2 million to a more appropriate amount, such as UGX 20 million. This could be justified in the context of inflation rate increases and the proportional value of the tangible asset (a motor grader, for example) and also the money saved in reducing 'down time'.

The procurement cycle could also be greatly speeded up by more access to '*call off contracts*' for spares for major manufacturers of equipment in the procurement process. This could be allowed for under existing PPDA regulations; the advantage being that it gives a quick access to spares stocks held by private sector equipment agencies at contracted prices. These agencies could be encouraged to set up consignment spare parts stocks in viable areas on a contract draw down basis. As a result, UNRA would not need to carry Central Warehouse would eventually become a distribution depot rather than a strategic storehouse with major savings in inventory costs.

Tentative informal talks with Mantrac (Caterpillar franchised dealer) and Victoria Equipment Ltd (Komatsu franchised dealer) in Kampala confirmed that operating call-off contracts in 'viable' regions would be both workable and acceptable. Incidentally, as would forming an alliance with the public sector for a plant lease business partnership.

The whole issue of supply chain management would require thorough, in-depth analysis to determine the best solution or solutions. Any subsequent changes would require appropriate senior management approval from UNRA and contact with the appropriate Minister in order to expedite any strategic alliance through at the highest level.

The main impact would be the improvement in the availability and service given to end users of UNRA equipment.

Operator Training and Operator Licensing

Previous analysis carried out in a number of African countries indicates that operator plant and equipment misuse can directly account for 30-40% of total plant repair costs. Initial empirical evidence in Uganda, suggests that this figure may be much larger, examples of operators using motor graders for dozing are common with the resultant damage to the mouldboard; operators using the reverse gear to stop the plant when the brakes are non-working, resulting in expensive transmission damage; topping up the engine with the wrong type of oil, again resulting in expensive, time-consuming rebuilds and so on.

It appears that plant operator's salaries of less than US$ 2 an hour, compared to the value of the plant of say U$ 200,000 they are responsible for, is incompatible. In order to embed the correct level of responsibility, operator training, qualifications and licences must be better reflected in the operator's remuneration package. This would also attract new, younger qualified operators into the sector.

There appears to be an absence of adequate appropriate operator training, both in 'plant operation' and in 'operator responsibility'. There is also evidence that there is a lack of new, young potential plant operators coming into the industry. The training facility should also be designed to deal with the training of novice plant operators; to give the industry a much needed boost.

Most plant/equipment procurement contracts include short operator training (2 days appears to be the norm). This is simply a familiarisation orientation exercise i.e. familiarising the operator with the particular manufacturer's unique equipment features and daily check requirements. This should not be confused with proper formal and vocational plant operator training.

Training needs analysis needs to be carried out on UNRA's operators, with the view to quickly carrying it over to the private sector. The assessment of the training requirements should be undertaken in terms of; a) the number of trainees; b) their practical skills, relevant educational and professional experience and background; and more importantly c) their present level of competence.

Subsequent operator training would need to be competency-based training programmes that allowed plant operators to complete both the formal and informal requirements of UNRA. The Plant Operator training would be in the order of 320 hours; 120 hours theory; and 200 hours practical. The training would be verified by a theory and a practical competence assessment.

A typical course would include: operator log book; operator pre-operating and shut-down equipment checks and associated paper trails; work site discipline and procedures, physical practical training following strict UNRA road maintenance specifications (road camber specifications, culvert ditch specs, reshaping specs, regravelling specs, embankment specs, superelevation specs and so on dependent on type of plant and equipment); procedures in the event of mechanical breakdown; and appropriate health and safety. The training should be unit type specific but would include multiple machines as appropriate and be a mandatory requirement for a plant operator's licence.

Since an operator with verified competence in more than one equipment unit type gives a greater degree of flexibility to Civil Engineering Operations (if one piece of plant breaks down, the operator can still add value by operating another complimentary piece of equipment), operators should be encouraged, where ability exists, to undertake additional training in other types of plant and equipment. This should be reflected in the operator's status and salary (a skill based salary).

Class of Operator	**Number of Plant/Equipment**	**Salary**
Class 1	1	Basic
Class 2	2	Basic + 1 increment
Class 3	3	Basic + 2 increments
Class 4	4	Basic + 3 increments

It is important that any subsequent plant operator licence would have a finite life; of say 5 Years, at which point the operator would need to undertake refresher training to validate the operator licence. In future, it should be mandatory that UNRA and MoWT only employs plant operators with the correct plant operator training certificate and licence.

After taking into consideration demand/numbers (based on the training needs analysis) an examination into appropriate training premises giving sufficient classroom and suitable area for practical exercises would need to be undertaken. The possibility of reinstating the original MoWT's 'Training Production Unit' Training School in Luwero, 65 kms North of Kampala which was closed due to budgetary cuts, would be a logical step.

There has recently been a joint initiative between UNRA and UNABCEC for operator training at Luwero and dialogue with both has revealed that they would welcome its reintroduction.

An examination of the composition and configuration of suitable teaching and training resources would need to be undertaken. It is assumed that in order to encourage buy-in, UNRA would provide staff salaries and support vehicles and materials. Typical selection that CrossRoads Project would consider funding is represented in tabular form below:

Nos.	**Resource**	**Cost (+cif)***
20	Chairs, desks etc	$1000.00
1	White board/screen	$300.00
1	Misc training materials paper/stationery	$700.00
1	Multi-media projector	$1500.00
1	DVD/PC	$2000.00
1	Training e-learning/DVDs (various)	$1000.00
1	Motor grader* (+ spares)	$150,000.00
1	Wheel Loader* (+ spares)	$90,000.00
1	Bull dozer* (+ spares)	$250,000.00
1	Roller* (+ spares)	$55,000.00
1	Misc training resources such as spirit levels, camber boards, measuring tapes, string etc	$2000.00
1	Misc PPE	$300.00
1	Small operating budget (fuel, oils, materials etc)	$10,000.00
		$563,800.00

* Estimated cost + CIF and spare parts - actual plant types and specifications would need to be determined

It is logical that UNABCEC should actively be involved and initially be the accreditation and regulatory body for plant operator licences. In time, the training facility could expand its services to other Ministries (Health, Agriculture etc) with the long term aim, after demonstrating a satisfactory track-record, to relinquish this responsibility and sell the function to the private sector.

Private Sector Capacity to set up a Plant Pool

It is well understood that the success of a sustainable, value for money road maintenance programme in Uganda should ultimately be supported by the private sector. The dynamics of this complex industry, therefore, need to be fully understood.

Primarily private sector road maintenance contractors are broken down into three categories; a) International companies that undertake large road construction and maintenance contracts on the national roads; b) Indigenous local contractors who tend to be engaged on road maintenance contracts on the national roads; and c) Labour-based contractors who carry out road maintenance contracts on district and community access roads (DUCAR) and to a lesser extent on the national roads.

Initial empirical evidence **suggests** that category b) above; the small local contractors lack the capacity, both in monitory terms and resources to cope with potential demand from UNRA.

It is for this reason that it is recommended to commission an in-depth analysis of the current situation of both the private sector and UNRAs capacity in order to identify the constraints and capabilities in this multifaceted environment. This would generate starting points for a programme of changes needs to be conducted.

The subsequent collection of data directed at the private firms themselves, the macro and micro-economic environment in Uganda and the private contractors primary customer; UNRA, will serve as a basis for making best informed strategic decisions. (it would also offer comparison mechanism for any subsequent data and assist in the subsequent evaluation and value added).

Economic, procedural (to include UNRA), regulatory, and technological factors that influence the state of the private sector, such as the fundamental economic force of ‘supply and demand’; barriers to competition and market entry; access to credit; skill levels; tax incentives and so on.

“Local contractors need to strengthen their capability and capacity but will only invest if there is continuity of work.[10]”

It is understood that reforms to the public sector (Ministry and Authority) institutions are necessary for the effective and efficient functioning of the roads sub-sector in Uganda, but it is also recognised that it is also important to encourage greater participation of the private sector in the delivery of road services, as reflected in the government transport policy. UNRA will play an important role in providing the framework that will encourage participation. There will also be a need to build the technical and management capacity within the private sector to allow it to respond to the new opportunities. Well targeted capacity building interventions will facilitate the development of competitive and innovative services from a potential, emerging private sector.

[10] World Bank, (2010), Uganda Public Expenditure Review, Strengthening the Impact of the Roads Budget, pg 39

However, the development of the private sector in road service provision should be seen as a medium term objective. It will require the road management market to be attractive enough for private sector suppliers to invest in. The institutional changes within UNRA and the MoWT should aim to help create an environment that encourages private sector participation. Some of the elements of this environment are:

- Provision of a long-term, stable, and predictable level of funding which will help ensure a steady flow of work opportunities in the sector.
- The establishment of a fair, transparent and level 'playing field' within which companies can compete for the work available. This requires clear and fair conditions of contract to be established.
- The prompt payment for satisfactory work completed – through the lending bank, rather than to the contractor (to form a tripartite contract between the bank, the contractor and UNRA) to minimise defaulting.
- The packaging of work that is suitable for local contractors – smaller, more manageable, sections of roads.
- The development of better quality through membership of professional associations.
- Investment in training to augment contractor skills levels both technical and business expertise
- Interventions into access to appropriate credit and financial services for private sector contractors
- Performance bonds linked to the return of initial collateral in order to produce diminishing collateral (rather than leaving 100% to the end of the contract, as now operates)

UNRA can play a key role in addressing many of these measures (some of which will require the enactment or changes to the appropriate legislation), if the public and private sectors are to work together effectively. However, it is not the function of UNRA to 'create' the private sector. UNRA however should ensure that contracts and procurement processes are structured in a way that makes it commercially attractive for private sector providers to bid for works.

Private Sector Capacity Baseline Study

It will be impossible for small local contractors to operate successfully without the macro-economic and regulatory conditions being met i.e. the same enabling environment as for any private businesses in other sectors. Possible down steam inputs may include:-

- Tax incentives – introducing a deduction, exclusion, or exemption from tax liability as an enticement to encourage investment in plant and equipment for a certain period.
- UNRA financial consistency – ensuring transparent, adequate long-term road maintenance budgets to enable the private sector to plan and to reinforce confidence in the road maintenance sector.
- Contract quality – road maintenance contracts with sufficient fixed time periods to encourage plant/equipment investment, supported by industry standard mechanisms such as penalties and incentives.
- Access to finance – total cost of borrowing, including interest charges, commitment fees etc. The rate of return on investment (ROI) i.e. analysing private firm's use of capital (plant/equipment) to break even and generate profit given the contractual and financial environment.
- Performance bonds – a written guarantee from a third party guarantor (GoU?) contractor by UNRA on winning a bid. The performance bond would ensure payment of a sum (not exceeding a stated maximum) of money in case UNRA fails to provide sufficient (pre-stated) work during the life of the contract, thus reinforcing market confidence.
- Geographic factors – financial or conditional incentives to encourage contractors to operate in more remote parts of the country.

- Skill base – training needs analysis to determine appropriate training and HR development for plant operators, plant mechanics, plant hire/contractor business owners and managers, financial services management, the Ugandan National Association of Building and Civil Engineering Contractors (UNABCEC), and so on.

Initiatives and Recommendations Summary

A list of initiatives and recommendations of a short term/ medium term nature for UNRA to consider and for CrossRoads to consider supporting include the following:-

Short Term

- Prepare asset register of MoWT/UNRA's plant, equipment, vehicles, workshops, spare parts (to include a condition audit where appropriate)
- Review the organisation structure of Mechanical Services Unit in Head Quarters and Regions, and consider how a new Mechanical Services Directorate could be set up
- Carry out a baseline survey to capture the private sector's capacity
- Carry out a training needs analysis for all plant operators
- Carry out a training needs analysis for all plant mechanics

Medium Term

- Transfer of Plant and Equipment from MOWT to UNRA (Mechanical Services)
- Raise base line level for procurement of spare parts in UNRA from 2 to 20 million shillings
- Carry out a training needs analysis for all Mechanical Services staff to identify skill gaps regarding commercial business skills
- Further develop cost capturing mechanisms for both plant/equipment operational costs and owning costs
- Develop an EMS to reinforce preventative maintenance
- Consider options for the re-establishment of the Operator Training School at Luwero
- Carry out appropriate business training and development
- Make recommendations for initiatives to assist the private sector to realise their potential
- Provide assistance to UNABCEC to enable it to operate in a more effective manner

APPENDIX G

PRELIMINARY REVIEW OF PPDA’S STANDARD DOCUMENTS

Preliminary Review of PPDA's Standard Documents

Creating Opportunities for Sustainable Spending on Roads in Uganda

Procurement Specialist

June 2011

A Preliminary Review of PPDA's Standard Procurement and Disposal Documents as used by UNRA

A preliminary review of Volumes I, III and IV of the standard documents for procurement and disposal issued by PPDA in June 2005, June 2005 and September 2006 respectively provided the following observations:-

Volume IV SHORTLISTING (PRE-QUALIFICATION) OF PROVIDERS FOR WORKS, SERVICES OR SUPPLIES

The title of the documents suggests that is for use in the prequalification of providers however the Guidance Notes state that "Shortlisting of bidders is different from prequalification in that the latter which is provided for under PPDA Regulations is for works, services or supplies which are highly specialized and require detailed design or methodology and is often used under the open bidding method"

The inclusion of the word pre-qualification in the title is therefore misleading. The document is in fact used for the purpose of shortlisting using a simplified form of pre-qualification procedure. The shortlisting procedure is for use where works, services or supplies are of a routine nature or bidding is for a group of similar non complex contracts. In this context the document has merit, however, it does not lend itself to non routine and complex works and services presently being dealt with by UNRA and therefore without significant modification cannot be used for the pre-qualification of contractors for works contracts or the shortlisting of consultants for services contracts.

The document is aimed at the procurement of works, services or supplies from domestic rather than international providers and is linked to the funding by the Government of Uganda and its financial year(s).

It is recommended that rather than amend/modify the existing document that stand alone documents be prepared for the Pre-Qualification of Contractors and for the Shortlisting of Consultants that can be used for contracts funded by either the GoU or any of its Development Partners.

Volume III Standard Bidding Document for the Procurement of Consultancy and Non – Consultancy Services, OPEN AND RESTRICTED BIDDING, REQUEST FOR PROPOSALS AND USER GUIDES

As the title of the document indicates not only does it contains Standard Bidding Documents (SBD) it includes the User Guides. Further perusal of the document reveals that it covers User Guides for (i) Procurement of Consultancy Services, (ii) Requests for Proposals and Purchase Order Documents for the Procurement of Consultancy Services as well as (iii) Procurement of Non-Consultancy Services. In trying to cover a wide range of procurement options it tends to make the document less user friendly than if it had perhaps been split into two volumes with one covering the Procurement of Consultancy Services and one covering the Procurement of Non-Consultancy Services.

In addition the document contains details of the four selection methods that are permitted by PPDA Regulations for the procurement of consultancy services namely:-

- Quality and Cost Based Selection (QCBS)
- Quality Based Selection (QBS)
- Fixed Budget Selection (FBS)
- Least Cost Selection (LCS)

The document provides guidance notes for all the above selection methods when probably in reality; most if not all of the consultancy services procured by UNRA and funded by its Development Partners, are selected using QCBS.

Notwithstanding that the document is somewhat cumbersome and tries to cover all procedures with respect to the procurement of consultancy and non-consultancy services it provides all the necessary bidding document information and guidance as to how to prepare and evaluate such documents. It also provides a sound basis for those who are familiar with its use and application to train others that are less familiar.

With frequent usage users will become more familiar with the contents of the document and hence be able to focus on those sections of the document that are appropriate for their needs.

Volume 1 Standard Bidding Document for the Procurement of Works, OPEN AND RESTICTED BIDDING, REQUEST FOR QUOTATIONS AND USER GUIDES

As is with the other procurement and disposal documents preliminarily reviewed this document has been prepared by PPDA to embrace all GoU procurement and disposal entities and in doing so does not necessarily reflect the specific requirements of UNRA.

The document states that the Standard Bidding Documents (SBD) have been designed to require the minimum input or changes to the document so that a final Bidding Document can be produced with minimum time and effort. Although this objective is very commendable, unfortunately in order to prepare a one size fits all document, it has its limitations in terms of UNRAs procurement of works function.

For example the Rules for Drafting Bidding Documents states that provisions in Section 1 “Instructions to Bidders” and Section 7 “General Conditions of Contract” **must be used with their text unchanged.** With a large volume of UNRA’s procurement of works being financed by their Development Partners, whose procure procedures often require the inclusion of specific words and the use of specific conditions of contract it is not possible to use verbatim either the Instructions to Bidders or the Conditions of Contract as per the PPDA’s document.

The PPDA Act (2003) accommodates the procurement policies and procedures of the multilateral and bilateral DPs by stipulating the following:-

“Where this act is in conflict with an obligation of the Government of Uganda arising out of an agreement with one or more state , or with an international organization, the provision of the agreement shall prevail over the act” (Section 4(1) of the Act)

For a number of works contracts procured by UNRA the above provision within the Act has been exercised thus overriding some of the Rules for Drafting Bidding Documents.

Other than the European Union that uses its own form of conditions of contract most of the GoUs Development Partners now use the World Bank Harmonised Edition prepared and copyrighted by FIDIC. For consistency there are good reasons for recommending that the GoU adopt the World Bank Harmonised Edition for projects funded internally and to amend/replace Volume 1 accordingly.

APPENDIX H

TERMS OF REFERENCE

FOR

CONSULTANCY SERVICES FOR INDEPENDENT PARALLEL EVALUATION OF BIDS AND REVIEW OF UNRA'S PROCUREMENT PROCEDURES

Terms of Reference for Consultancy Servieces for Independent Parallel Evaluation of Bids & Review of UNRA's Procurement Procedures

Creating Opportunities for Sustainable Spending on Roads in Uganda

Procurement Specialist

June 2011

TERMS OF REFERENCE

FOR

CONSULTANCY SERVICES FOR INDEPENDENT PARALLEL EVALUATION OF BIDS AND REVIEW OF UNRA'S PROCUREMENT PROCEDURES

1 BACKGROUND

Institutional Reform

The Government of Uganda (GoU) has been reforming the road sector since 1996 in order to bring about economic change and poverty reduction. Institutional strengthening has been identified as a critical component of the reform process. One of the objectives of the institutional strengthening and reform process was the establishment of a robust administration for effective and efficient management of Uganda's national roads network. To achieve this objective GoU committed itself to reform the management of the national road network through the establishment of an autonomous performance based Road Authority to manage road administration and execution functions together with the restructuring of the Ministry of Works and Transport (MOWT) to focus on policy, setting of standards, regulation and monitoring and evaluation.

As a transition strategy of the reform process, in 1998, the Road Agency Formulation UNIT (RAFU) was created as a semi autonomous agency within the MOWT to manage and develop the national road network. The Uganda National Roads Authority (UNRA) was subsequently established, replacing RAFU to effectively manage Uganda's National Classified road network, by an Act of Parliament; the Uganda National Roads Authority Act, No 15 of 2006. UNRA became fully operational on the 1st July 2008.

Institutional and Organisational Management

Public procurement and disposal of public assets in Uganda is governed by the basic principles of public procurement, i.e value for money, accountability, fairness and transparency. The following provides the legal framework and guidance of public procurement and disposal of public assets in Uganda:-

- The public Procurement and Disposal of Public Assets Act (2003) (issued by Parliament)
- The Public Procurement and Disposal of Public Assets Regulations (issued by the Minister of Finance, Planning and Economic Development)

- The Guidelines (issued by the Public Procurement and Disposal of Public Assets Authority (PPDA)) and
- Standard Bidding Documents (issued by PPDA)

The PPDA is the regulating authority of GoU which regulates and oversees the procurement and disposal of public assets in Uganda.

The PPDA Act (2003) accommodates the procurement policies and procedures of the multilateral and bilateral Development Partners (DPs) by stipulating the following:-

“Where this act is in conflict with an obligation of the Republic of Uganda arising out of an agreement with one or more states, or with an international organization, the provision of the agreement shall prevail over the act” (Section 4(1) of the Act)

UNRAs procurement and disposal function organisation includes the Accounting Officer, the Procurement and Disposal Unit (PDU), a Contracts Committee (CC), User Departments (UDs) and ad hoc Evaluation Committees (ECs) as required by the PPDA Act and Regulations. The UDs in UNRA include the Executive Director’s Office, the Directorate of Operations, the Directorate of Projects, the Directorate of Planning, the Directorate of Internal Audit and the Directorate of Finance and Administration. The roles and responsibilities of all parties in the procurement and disposal function are governed by the PPDA Act and Regulations.

Rationale for the Consultancy Services

During recent years the GoU and its DPs have made a major commitment and increased their budgets in order to strengthen and support the development of the road sector. As a result the workload and diversity of UNRA’s procurement and disposal function has increased significantly for works, services, goods and supplies. UNRA is presently managing financial resources provided by both GoU and its DPs including the WB, EU, AfDB, BADEA, NDF, DFID, KFW, JICA and DANIDA, among others, and is required to use the procurement policies and guidelines of the DPs to disburse their respective financial resources.

Adequate knowledge of these procurement policies and guidelines together with the PPDA Act and Regulations is a fundamental requirement in order to ensure value for money, accountability, transparency and fairness. However the implementation capacity of UNRA has not been compatible with the increasing workload and diversity of its procurement and disposal function. As a result there have been cases of complaint and dissatisfaction from bidders and stakeholders with respect to how UNRA is carrying out its procurement and disposal function. The GoU and its DPs deem it necessary therefore to put into place appropriate measures in order to reduce the number of complaints and level of dissatisfaction in UNRA’s implementation of its procurement and disposal process, associated with its under capacity.

In order to increase public confidence, validate and improve the quality of the decision making process and to ensure integrity in UNRA's procurement and disposal process there is an immediate requirement to put into place parallel independent evaluation of bids for works and services. Parallel independent evaluation of bids will serve as a benchmark for UNRAs own evaluation and support the CC in the decision making process.

In addition and in order to enhance transparency and accountability the GoU intends to increase public disclosure and access to information through UNRA's website and publications and through participation in the global Construction Sector Transparency Initiative (CoST); which was piloted in Ethiopia, Malawi, Zambia and Tanzania and sponsored by DFID and the World Bank.

Notwithstanding that the inclusion of parallel evaluation of bids will enhance the tender evaluation component of the procurement and disposal process there are other components of the procurement process that could be improved to assist UNRA to effectively and efficiently manage the process. This could include improving the quality of Terms of Reference (TOR) and bidding documents, streamlining the present procurement process to help reduce the time for procurement by the introduction of user friendly procedures manuals based on a review of the present procedures, training UNRAs staff in project and contract management and administration etc.

In order to address these issues DFID is to procure the services of a specialist consultant to carry out the scope of works as included in these TOR.

2 OBJECTIVE OF THE CONSULTANCY

The main objective of this consultancy is to (1) carry out independent evaluation of bids for works and services in parallel with UNRA's bid evaluations in order to serve as a benchmark for UNRA's own evaluations and to support and enhance the CCs decision making process for awarding of contracts; (2) undertake a detailed review of UNRA's existing procurement and disposal procedures as contained in the PPDA Act and Regulations, with respect to works and services, prepare procedures and guidelines for use by UNRA and accreditation by PPDA and train UNRA's staff in their use and application; (3) undertake a review of UNRA'S TORs and bidding documents and advise on their improvement; (4) undertake a review of UNRA's project management and contract management and administration procedures and advise on their improvement; and (5) assist GoU in its effort to promote transparency and accountability through public disclosure and participation in the global Construction Sector Transparency Initiative (CoST).

Initially it is intended that the Consultant shall carry out Independent Parallel Bid Evaluation (IPBE) for all bids submitted for works contracts having an estimated value equal or greater than US$10 million, for at least 30% of those bids for works and services contracts with an estimated value between $1 million and $10 million and on a random sample of at least 10% of bids received with an estimated value of less than $1 million. The Consultant will be provided with UNRA's works and services procurement programme and will independently select those bids for which he will undertake an IPBE. The Consultant will advise the CC at the time the bid is submitted that he intends to carry out IPBE. Those bids whose values are equal or greater than $10 million will all be subject to IPBE. Bids that fall outside UNRA's procurement programme will also be subject to IPBE, in line with the above criteria.

For the purpose of the planning his staff inputs it is anticipated that the number of bids that will be subject to IPBE, within the first year of the Consultancy, will be XX number of bids having an estimated value equal or greater than $10 million, YY number of bids with an estimated value between $1 million and $10 million and ZZ number of bids with an estimated value less than $1 million

As and when there has been significant improvement in the quality of decisions and integrity of the procurement and disposal process carried out by UNRA, based on a significant reduction in the number of complaints received from bidders and similarity between UNRA's Bid Evaluation Reports (BERs) and the Independent Bid Evaluation Reports (IBERs), the Consultant will only be required to carry out IPBE on an ad hoc selective basis as deemed appropriate by the CC.

3 SCOPE OF SERVICES

The activities of the Consultant shall include but not be limited to the following:-

Works Contracts

- Undertake independent pre-qualification of bidders or post qualification of bidders in the event that prequalification was not undertaken and submit pre/post qualification report to CC and to the DP funding the project as applicable
- Review UNRA's bidding documents and check for completeness and compliance with PPDA Regulations and any DP requirements prior to the issuance of bidding documents.
- Carry out independent evaluation of bids for works in accordance with PPDA Regulations, DP's procurement requirements and UNRA's procedures in parallel with UNRA's EC and in the same time frame as required by the CC and prepare and submit an Independent Bid Evaluation Report (IBER) to the

- CC for their use in their decision making process for awarding the works contract and at the same time submit the IBER to the appropriate funding DP.
- Prepare confidential responses to requests from the CC for clarifications and explanations in order to address particular findings of the CC.
- Review draft works contracts prepared by UNRA prior to signing to ensure compliance with the bidding documents and PPDA Regulations including minutes of negotiations and pre contract award correspondence and advise the CC accordingly.
- In the event that a bidder lodges a complaint with respect to the award of a works contract the Consultant may be required to answer questions put to him by the Executive Director of UNRA who is responsible for investigating any bidder complaints received.

Service Contracts

- Undertake independent evaluations of Expressions of Interest for consultancy services and prepare an Independent Evaluation Report (IER) which shall include recommendations with respect to the composition of the shortlisted consultants together with comments and recommendations with respect to UNRA'S scoring criteria for selection of consultants for inclusion on the shortlist and submit EOI Evaluation report to CC and to the funding DP as applicable.
- Review UNRA's Request for Proposals including its selection criteria and report findings to the CC prior to issuing the RFP and the evaluation of Technical and Financial proposals from consultants.
- Undertake independent technical evaluation of consultants submitted proposals in accordance with UNRA's evaluation criteria and procedures, DP's procurement requirements and PPDA Regulations in parallel with and within the time frame stipulated by the CC and prepare and submit an IBER to CC for their use in their decision making process for awarding the consultancy and at the same time submit the IBER to the appropriate funding DP..
- Prepare confidential responses to CC requests for clarification and explanations in order to address their particular findings with respect to the evaluation of the technical proposals.
- Review draft consultancy contracts prepared by UNRA prior to signing to ensure compliance with the Request for Proposals (RFP), DP's procurement requirements and PPDA Regulations.

- In the event that bidder lodges a complaint with respect to the award of a services contract the Consultant may be asked to answer questions put to him by the Executive Director of UNRA who is responsible for investigating anyl bidder complaints received.

Monitoring and Evaluation

- The Consultant shall put into place a monitoring and evaluation system that captures the number of complaints of the procurement process from bidders. These will be quantified in order to evaluate the impact of the IPBE on the reduction of the number of complaints received. Such information will then be used to determine, based on a significant reduction in complaints being received, say 75% of the initial base annual number of complaints, when the level of IPBE can be reduced and applied to ad hoc selected bids.

IMPROVING THE PROCUREMENT EVALUATION PROCESS AND DEVELOPMENT OF MANUALS AND ACCREDITATION

- Carry out a review of UNRA's bid evaluation procedures together with a selection of BERs in order to identify any deficiencies and areas for improvement in order to improve, streamline and simplify the process with a view to minimizing delays. The Consultant shall prepare a procedures manual for this component of the procurement process for both internal use by UNRA and for external use by consultants. Following agreement of its contents with UNRA the Consultant shall prepare a draft submission to PPDA in accordance with Article 342 of PPDA Act 2003 for accreditation of an alternative system. The Consultant shall as necessary liaise with PPDA and other stakeholders to ensure the improved system is approved and accredited by PPDA for use by UNRA

- The Consultant shall undertake a training needs analysis of all UNRAs staff likely to be nominated for inclusion on the EC in order to identify any skills gaps and prepare suitable training programmes/workshops in order to familiarize UNRA staff with the alternative bid evaluation system and how it is to be used.

- Establish criteria for the level of qualifications and experience required for selection of EC members for both tender bid evaluation and evaluation of consultants proposals based on findings from the training needs analysis.

- Review PPDA Act and Regulations with respect to complaints of the bidding process and advise and make recommendations as to their appropriateness and the quantum of the fee presently prescribed for payment by a complaining bidder. In addition review the PPDA Act and Regulations in order to identify

- any areas that do not add value/transparency and propose alternative simplified options.
- Review the present procurement process for both works and services and prepare a customized procurement manual to assist UNRA staff in procurement and contract management functions in order to understand their responsibilities for day to day accountability.
- The Consultant shall carry out a training needs analysis of all UNRA's staff in the procurement cycle from the preparation of TOR, bidding documents. The bid evaluation process and contract management and administration and shall prepare and submit a training report and programme to UNRA for its adoption and implementation. The IPBE consultant will only be required to train staff in the bid evaluation component

Public Disclosure and Accountability

- The Consultant shall assist the GoU in promoting transparency and accountability through public disclosure and accountability and its participation in the global Construction Sector Transparency Initiative (CoST). The Consultant shall make necessary recommendations as to what mechanisms are needed to be put in place to achieve this initiative

4 DATA AND LOCAL SERVICES TO BE PROVIDED BY UNRA

Documents and Support

UNRA shall provide the Consultant with copies of all available documents, reports and information considered relevant for execution of the Consultants work in undertaking all the activities to be addressed in these TOR.

UNRA shall assist the Consultant in obtaining information and reports from other Ministries/Departments of the GoU.

All documents, reports and information provided by UNRA to the Consultant must be treated by the Consultant with full confidentiality.

Liaison

UNRA shall establish liaison with other Ministries/Departments in order to introduce the Consultant to them. The Consultant shall be fully responsible for collecting data and information from these agencies. In addition UNRA will assist the Consultant in obtaining work and residence permits as may be required by the laws of the Republic of Uganda for the Consultant's expatriate staff.

Taxes, Duties, Immunity and Privileges

The Consultant shall comply with the Labour, Immigration, Civil and Taxation laws and other regulations of the Government of Uganda.

5 TECHNOLOGY TRANSFER AND TRAINING

UNRA places great emphasis on staff development and to this end, where appropriate and whilst at the same time maintaining his independence, the Consultant shall interact with UNRA's staff at certain stages of the consultancy services to ensure there is technology transfer and training both formal and informal.

6 SPECIFIC RESPONSIBILITIES OF THE CONSULTANT

Data, Documents, Reports and Information

All data, documents, reports and information received from UNRA or other GoU agencies during the execution of the services of the Consultant shall be properly reviewed, evaluated and analysed by the Consultant. The responsibility for the correctness and usage of such data shall rest with the Consultant. All such information shall be treated as confidential and shall remain the property of the GoU.

The Consultant shall make his own arrangements for collection, preservation and security of all data, documents, reports and information collected.

Office Accommodation and Facilities

The Consultant shall establish, for the duration of this consultancy, an independent stand alone office in Kampala for his staff as well as using his head office whilst undertaking independent and parallel bid evaluations. The Consultant will be responsible for providing all necessary facilities required to carry out the consulting services.

Accommodation and Transport

The Consultant shall be responsible for providing housing accommodation and transport for his staff whilst resident in Uganda and undertaking work associated with the consultancy services.

Training Budget

The Consultant shall prepare and submit a budget to cover the costs of training identified following the training needs analysis to include for workshops, training aids etc. A provisional sum will be provided in the Consultants contract which can only be drawn down following the written approval of the training programme and budget by UNRA and DFID.

7 DURATION OF THE SERVICES

The duration of the consultancy services shall be three years from the commencement of the services. It is estimated that the input required will be 100 person months inclusive of delivering the required training.

In order to ensure that the IPBE is totally independent it is required, for the first 12 months of the assignment, that all IPBEs are carried out at the Consultants head office by a team with the necessary expertise as outlined in Section 9 and in line with the scope of services for Works Contracts and Services Contract as defined in Section 3.

In order for the Consultants IPBE team to effectively carry out the IPBE it will be necessary for them to familiarise themselves with the bid evaluation process presently used by UNRA. It will be necessary therefore for members of the team to visit Uganda for a short period prior to carrying out any IPBEs. During this visit the Consultant shall have access to all necessary documentation, related to the procurement process, to enable him to be able to carry out his future IPBEs. He will also be required to meet with the Contracts Committee in order to establish the protocol and modalities of the IPBE and how the Consultant will receive instruction from and report to the CC and DPs.

At the same time as mobilizing the IPBE team the Consultant shall mobilize staff, to be based in Kampala, which will commence the other scope of services for Monitoring and Evaluation, Improving the Procurement Process, Development of Manuals, Accreditation, Public Disclosure, and Accountability as outlined in Section 9.

In order to improve the bid evaluation process feedback from the Consultants Head Office will be given to the Consultants team in Kampala who will use this feedback in the review of existing procurement procedures and in the development of procurement manuals which will be used in the training of UNRA’s staff.

The Consultant will be required in its Methodology, Work Plan and Staffing to demonstrate clearly how he intends to deal with the above requirements. In doing so he is free to propose his own staffing schedule and inputs within the allocated person months but must as a minimum include the level of expertise as required by Section 9.

8 REPORTS AND DELIVERABLES

The Consultant shall prepare and submit the following reports:-

Inception Report

The Consultant shall submit an Inception Report four weeks after commencement of the services which shall include the Consultants initial findings and in light of these findings confirm or update the proposed methodology and work plan. The report shall also identify constraints, if any, and propose solutions which may include action to be taken by UNRA to facilitate a successful implementation of the services.

Independent Bid Evaluation Reports (IBER)

The Consultant shall prepare and submit an IBER in accordance with the provision of the bidding documents or RFP, agreed templates and specific requirements of the procurement guidelines and procedures set down by the agency financing the project.

The IBER shall follow the format(s) provided in the PPDA Regulations, the DPs requirements (if the project is funded by a DP) and international best practice.

Quarterly Progress Reports

The Consultant, at the end of each quarter following commencement of the services, shall submit a quarterly report that records the summary of the type and number of independent parallel bid evaluations carried out, value of each procurement, the selection procedure used, name and origin of awarded bidder, differences (if any) observed in the findings and outcomes of the evaluations carried out by UNRA and the IPBE, how these were resolved and the position taken by the CC. In addition the report should include any constraints/challenges encountered during the reporting period particularly with respect to maintaining the integrity and transparency of the selection process and recommended solutions and measures taken by UNRA.

Review of UNRA's Bid Evaluation Procedures Report

Having carried out a review of UNRA's present bid evaluation procedure the Consultant shall submit a report identifying any weaknesses in the procedure together with proposals to improve the present system and the contents of a procedures manual suitable for accreditation by PPDA. The report shall be completed within 9 months of the commencement of the consultancy services.

Training Report(s)

Following the completion of a training needs analysis of UNRA's staff involved in the procurement process the Consultant shall submit Training Reports which identify any weaknesses and skills gaps. He will make recommendations as to how these deficiencies may be overcome through both formal and informal training programmes including the timing elements of the training programmes and the resources needed to implement such programme(s).This report shall be submitted within 4 months following the commencement of the consultancy.

Following the completion of the training programme the Consultant shall submit a report that includes details as to the effectiveness of the training programme and the impact it has made in improving the efficiency and effectiveness of UNRA in carrying out it procurement and disposal function. The report shall be shall be submitted two months prior to the completion of the consultancy services.

Procurement and Disposal Manual for use by UNRA

Having carried out a review of UNRA's existing procurement procedures the Consultant shall submit a report identifying areas of weakness together with proposals to improve the present system and prepare and submit procedures manuals for use by UNRA and suitable for accreditation by PPDA. The manual shall be submitted within 12 months of the commencement of the consultancy services.

Ad Hoc Reports

The Consultant will be required from time to time other reports at the request of CC. The timing and format of such reports shall be agreed between the CC and the Consultant.

Consultancy Completion Report

The Consultant shall submit a Consultancy Completion Report one month before the end of the consultancy which shall be a comprehensive report documenting all activities undertaken during the period of consultancy services and shall include milestones achieved, reasons for any activities in the TOR not being accomplished and any recommendations with respect to any outstanding issues that may need to be addressed following the completion of the consultancy services.

All reports shall first be submitted in draft (5 No) and following comments by the Client 6 copies of final reports shall be submitted to the client with a soft copy being provided on a CD.

9 EXPERTISE REQUIRED

In order to carry out the services in the scope of the works in these TOR, the Consultant shall provide a team with the necessary expertise to ensure that the services are performed to the highest standards.

It is envisaged that the following key personnel will be required for the execution of the project together with ancillary staff necessary to deliver the full requirements of these TOR such as secretarial and other supporting staff.

Technical Specialist/Team Leader

The Technical Specialist /Team Leader shall hold as minimum a B.Sc degree in Civil or Highway Engineering with a minimum of 15 years experience in the planning, procurement, design, preparation of bidding documents and TOR, construction, maintenance and contract management of roads and bridges projects of which at least five should have been in carrying out evaluation of bids submitted for works and services in the transport sector. In addition he/she shall have at least two years experience in the procurement of works and service contracts for a public organization funded by multilateral and bilateral DPs. Experience of working in Uganda and the African region would be an advantage.

Procurement Specialist(s) (2No)

The Procurement Specialists shall hold as a minimum a B.Sc degree in Civil or Highway Engineering with a minimum of 15 years experience in the planning, procurement, design, preparation of contract documents, construction, maintenance and contract management of roads and bridges contracts of which five years shall have been on procurement of works and service contracts for a public sector organization funded by governments and by multilateral and bilateral DPs. The Procurement Specialists must have extensive experience in resource management and production rates for items of work for major roads and bridges construction projects including the evaluation of contractors' submitted works programmes. Experience of working in Uganda and the Africa region would be an advantage.

Financial Specialist

The Financial Specialist shall hold an appropriate degree in finance and be registered with a recognized financial accredited association and have at least 10 years experience in the review of financial matters related to major engineering works contracts such as vetting the financial status of bidders, adequacy of surety and performance bonds, company registration and other contractual compliance issues as required by governments and by multilateral and bilateral DPs with particular relevance to major road and bridge works contracts. In addition he/she must have experience of reviewing Professional Indemnity insurance cover for design consultants to ensure adequacy of cover. Experience of working in Uganda and the Africa region would be an advantage.

Human Resource Development Specialist

The Human Resource Development Specialist shall hold as a minimum a B.Sc degree in Civil Engineering and or an appropriate qualification in human source development and have a minimum of 10 years experience in carrying out training needs analysis and in the preparation and conducting of bespoke training programmes of which 5 years should have been providing such services to government highway agencies in developing countries. Experience of working in Uganda and the Africa region would be an advantage.

In addition to the above key personnel and ancillary staff, the Consultant shall nominate a senior member of his staff as Project Director who will be responsible for ensuring compliance of the consulting services in terms of the consultancy contract between DFID and the Consultant and to provide all the necessary technical, management and administrative back-up to staff carrying out the consultancy services both in Uganda and the Consultants Head Office. The nominated staff member shall be a professionally qualified civil engineer with extensive experience of procurement of works and services within the transport sector in the developing world funded by international donors.

Note: Proposed staff members should have been employed or have carried out a number of similar assignments for the Consultant, carrying out similar tasks that he/she would be expected to carry out in this consultancy, during the past 10 years. It is important that the Consultant only includes well tried and tested team members who have demonstrated high level of integrity, honesty, probity and cultural sensitivity on previous assignments.

10 SUPERVISION

Due to the confidential and sensitive nature of these consultancy services and in order for the Consultant to maintain his independence throughout the period that the IPBE process is in progress the Consultant shall be required to report to and receive instruction from the Chairman of the Contracts Committee. For all other activities to be undertaken by the Consultant the Consultant shall report to the Executive Director of UNRA or such person(s) nominated to act on his behalf.

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BADEA	Arab Bank for Economic Development
BER	Bid Evaluation Report
CC	Contracts Committee
CoST	Construction Sector Transparency Initiative
DANIDA	Danish International Development Agency
DFID	Department for International Development
DP	Development Partner
EC	UNRA’s in house Evaluation Committee
ED	Executive Director
EU	European Union
GoU	Government of Uganda
IBER	Independent Bid Evaluation Report
IER	Independent Evaluation Report
IPBE	Independent Parallel Bid Evaluation
JICA	Japanese International Cooperation Agency
KfW	Kreditanstalt fur Wiedeaufbau
MOWT	Ministry of Works and Transport
NDF	Nordic Development Fund
PDU	Procurement and Disposal Unit
PPDA	Public Procurement and Disposal of Public Assets Authority
RAFU	Road Agency Formulation Unit
RFP	Request for Proposals
TOR	Terms of Reference
UNRA	Uganda National Roads Authority
WB	World Bank

APPENDIX I

TRAINING REPORT

Training Report

Creating Opportunities for Sustainable Spending on Roads in Uganda

Training and HR Specialist

June 2011

Acknowledgements

The consultant responsible for conducting this training needs analysis report benefited greatly from the time and materials made available by those consulted as part of this assignment. Particular thanks is due to the senior management and staff of DIT, GIZ, MoWT, UACE, UGAPRIVI, UIPE, UNASBCEC, UNRA, MoF, MOT, MOW, PMO-RALG and many others. The time made available, often at very short notice, by those contacted and their willing co-operation to provide information and factual evidence through documentation was greatly appreciated.

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List of Abbreviations

AfDB	African Development Bank
BTVET	Business, Technical, Vocational Educational and Training
CD	Capacity Development
CEO	Chief Executive Office)
DP	Development Partner
DFID	Department for international Development
DIT	Directorate of Industrial Training
EAC	East African Community
EC	European Commission
EU	European Union
EUD	European Union Delegation to the Republic of Uganda
FY	Financial Year
GoU	Government of The Republic of Uganda
HRD	Human Resource Development
HRM	Human Resource Management
IOV	Inspectorate of Vehicles (Police)
MDA	Ministries, Departments and Agencies
M&E	Monitoring and Evaluation
MoWT	Ministry of Works and Transport
NRSA	National Road Safety Agency
MELTC	Mount Elgon Labour-Based Training Centre
PEVOT	Promotion of Employment Orientated Vocational and Technical Training
PPDA	Public Procurement and Disposal of Assets Authority
PPP	Public-Private Partnership
RFB	Road Fund Board

TA	Technical Assistance
ToR	Terms of Reference
UGAPRIVI	Uganda Association of Private Vocational Institutions
UNRA	Uganda National Road Authority
UShs	Ugandan Shillings
UVQF	Uganda Vocational Training Framework
VfM	Value for Money
WORKER'SPAS	Worker's Proficient Acquired Skills

Executive Summary

Although the term analysis of training needs was originally used to describe this work, the findings indicate that there is a considerable need for “capacity building”, that will likely include training, where capacity building is defined as the development of the ability of people and the organisation in which they work to manage their affairs successfully to produce the required outputs. Being internal, capacity development can only be facilitated from outside.

The overriding consideration is that capacity building and training must be demand led, market driven and able to be sustained principally by the private sector.

Whilst several organisations met list establishing a training centre in their needs and strategic plans, constructing and/or running buildings with a training faculty is not recommended due to the high fixed overheads of maintenance and staff salaries, often for a facility that is not fully occupied throughout the year. It is preferable to hire training venues and contract expert trainers according to need.

The identified needs involve a mix of capacity building for some principal stakeholder institutions and their Secretariats and conducting technical training whilst developing and training national trainers to sustain the training for Continuing Professional Development, upgrading existing skills and knowledge of engineers and helping with business development of consulting and contracting firms and management development of senior staff.

There is also an expressed need to improve advocacy and lobbying, public relations and dealing with the media for the stakeholder institutions, which will also probably be applicable for civil society organisations that can monitor and call government to account for use of public funds on road work. Such organisations are seen as key to the long-term sustainability of road network improvement.

Uganda has recently reformed its technical and vocational education system and supporting institutional arrangements to make training more appropriate for the needs of industry through the Uganda Vocational Qualifications Framework. Currently the existing Assessment and Training Packages mainly cover building trades but not civil engineering relating to road works. It is recommended that training for site personnel be incorporated into this framework through the development of new ATPs. Such training can then be taken up by interested private vocational training institutes and any new training entities attached to trade Associations such as UNABCEC.

With the demise of the former Ministry of Works and Transport works training centre, the only organisation in Uganda currently conducting training related to contracting and site work is the Mount Elgon Labour-Based Training Centre (MELTC) at Mbale. It provides assessed certification to success trainees but they are not part of the UVQF.

MELTC is no longer training labour-based contractors, probably more due to budgetary constraints as these programmes were heavily subsidised in the past. It is recommended that a one-off programme to train more labour-based contractors be funded, in line with the new policy to develop the construction industry, and a similar approach is taken to provide refresher training for already trained labour-based contractors.

MELTC is considered as potential resource for training small contractors in business and financial management and for training instructors for site related training.

The main challenge is to provide the high priority plant and equipment operator training. With the general lack of plant in Uganda and the low ownership, the possibilities of establishing in-company training are very restricted. As such involves high investment in equipment that is outside the reach of private sector training entities.

Various options are considered with that of forming a working training production unit have the most advantages and with a source of income, most likely to be self-sustaining in the long-term. The means of providing funding for the high-cost plant and its ownership is open for discussion and agreement between donor partners and stakeholders.

A draft programme for implementation is provided with budget costs for all the recommended activities.

Background

This analysis was conducted over the four-week period from 23rd May to 17th June, 2011. The methodology employed was conducting a literature search and consultation whilst conducting meetings with identified key stakeholders in the construction sector with a particular relevance to roads. The purpose was to produce a report identifying the main training needs and outlining an indicative plan of response for the inception report of the CrossRoads Project that commenced in January, 2011.

The Construction Sector in Uganda

The construction sector is growing quickly in Uganda and is an important part of the national economy, as shown in the extract below from the 2011/12 Budget Speech:

*"The total National Output of goods and services, commonly referred to as Gross Domestic Product (GDP) rebounded, growing at 6.3 per cent during the year, compared to 5.5 percent in Financial Year 2009/10. Consequently, National Output is projected to total Shs 38,800 billion, an increase from Shs 34,810 billion in the Financial Year 2009/10. The rebound in economic activity is largely attributed to the recovery in construction and increased trade activities. In addition, there has been a strong performance in the telecommunications, financial services, mining and quarrying sub-sectors." (*Kiwanuka, Maria, June, 2011)

Labour Supply and Demand

There is no shortage of comments and responses about the need to improve skills within the construction sector. Whilst assuredly based on current experience within the industry there is a paucity of hard data for the current situations and future predictions about the likely numbers and types of labour required in the near future.

A literature search revealed a study published in 2009 (Wedig, Karin) covering central, eastern, and northern UGANDA that included the construction study. This mentions percentage number of respondents reporting increased or decreased employment. In a similar way percentages are reported about the supply of skilled labour. No actual figures are stated. For example,

"More than two thirds of the surveyed construction sector employers reported problems in finding employees with relevant skills of sufficient quality. More than half (57%) found it difficult and 11% found it very difficult to get employees with relevant skills. Thus, a majority of 68% of construction companies reported problems in finding the employees they are looking for." (Wedig, Karin Oct, 2009 p21)

It is understood that a study of the labour needs for labour-based construction was carried out for DANIDA in about 2005 by IT Transport of the UK.

The overall indications are an increasing need for more skilled labour in the construction sector with current a limited supply of the available workforce having the right skills and skills of appropriate quality.

Box 1: Employment Trends in the Construction Sector

In a recent study, construction was ranked among the three sectors with the highest expected growth rates over the next five years (Walter and Nalumansi, 2008). The sector also showed the third highest demand for skilled labour (ibid.). …. With regard to the share of employment by gender, the low participation of women in the sector is noteworthy. Only 2.4% of construction sector employees are women. Considering the high demand for skilled labour in the sector and the associated potential for higher wages, the exceptionally low participation rate of women reflects the … inequality between the sexes with regard to poverty levels.

Regarding the educational attainment of the working poor across all sectors of employment, persons with no formal education are most likely be among the working poor with 55%, followed by those with primary education at 39%. The likelihood of being poor declines as educational attainment rises. In particular those with some form of technical or vocational training, either ‘primary' or ‘specialized' are much less likely to be poor: only 9% in this category were classified as being among the working poor. Thus, only 17% of those with secondary education are classified as poor. (UBOS, 2006)

Source: Wedig, Karin Oct, 2009

Human Resources

From the literature consulted and discussions born out by meetings with contractors and to a lesser extent by consultants, employment of both skilled and unskilled labour is largely on a temporary basis of duration determined by the construction contract. When the contract ends, so does their employment unless there is a new contract running on, which is often not the case. With the inconsistent availability of work, the numbers employed vary from year to year, with some of the larger companies only able to employ a limited number of permanent staff.

This situation, and the indication in studies that human resources are not widely recognised as a crucial factor for business success so not highly valued by companies generally in the construction sector, leads to the following situation;

- Irregular wages, often caused by late payments from the Client. 43% of the employers in the study conducted by Wedig, Oct, 2009, admitted to irregularities in payments of their skilled staff during the last two years
- Insecurity of employment due to short duration contracts so some employees consider that high or low productivity and quality makes little difference as they will loose their jobs anyway
- Generally low pay and lack of incentives leading to poor motivation and commitment from employees

The majority of construction employees are recruited locally where personal contacts are decisive in finding work, principally by asking friends and family members particularly for the smaller companies. A much smaller number finds employment through “walk-ins” and the least through advertisements. Many employees do not have formal written contracts of employment

Technical and Vocational Education

Uganda is considered to have an “inverted pyramid” phenomenon whereby there is a middle level and technical skills' vacuum in part accentuated by turning public polytechnics and vocational colleges into universities. There is a mismatch between a larger number of graduate engineers without the requisite number of lower level technicians and skilled workers to supervise; more managers than workers. Unskilled or incompletely skilled workers are used that, for example, result in higher operating costs and more repairs for plant and equipment.

Education in Uganda in the past was based more upon literacy and academic goals. The recognition of shortage of skilled labour appropriate for industry was particularly evident when Uganda opened up to inward investment from the private sector and investors found an often ill-equipped work force. This lead to a reassessment of education, the need to align technical education and training with the job market and provide the skills needed by industry. It was realised training and the resulting qualifications needed to be revised to:

- recognise prior learning and skills gained, often in the informal sector,
- make entry more equitable,
- make technical and vocational education more accessible to females, physically disadvantaged and
- make it more affordable.

The result was the The Business, Technical, Vocational Education and Training Act, 2008, which established the directorate of Industrial Training and Uganda Vocational Qualification Framework (UVQF). The training levy provided for in the Act was not implemented as it was seen at the time as being yet another tax on industry. The development of recognised vocational qualifications and the public awareness of the UVQF are still in their infancy.

Stakeholders, Summary Information and Training/Capacity Building Needs

The following are the identified principal stakeholders relevant to the development of the private sector in the roads sub-sector in Uganda.

<table>
<tr><th>Stakeholder Organisation</th><th>Expressed Needs & their Suggestions</th></tr>
<tr><td colspan="2">Professional/Learned Societies</td></tr>
<tr><td>Uganda Institution of Professional Engineers (UIPE)

Established in 1972
Registered a company limited by guarantee in 2005 to act as business vehicle/investment unit but was never operated
Main purposes are:
learned society to promote engineering and facilitate exchange of information and ideas amongst members
maintaining professional ethics, standards and engineering best practices of members
leadership, direction and advocacy of engineering
Mandatory to be a member of UIPE to register as an Engineer in Uganda so UIPE has legal mandate to evaluate and assess engineers able to practice independently. As such UIPE has role of nurturing, training and developing engineers
Governed by annually 21 elected Members of Council
Day-to-day running currently by 4 person Secretariat consisting of Manager, Information and Membership Officer, Accounts Assistant and Office Assistant but proposal to change to an Executive Secretary (CEO) with 2 Managers: Projects (supported by Project & Research Officer), Administrative (supported by a Membership and Information</td><td>Background:

UIPE has in the past benefitted from contact and assistance from other engineering learned societies, for example the Institutional of civil engineers in the UK, that have transformed themselves to become more active in advocacy, more media savvy, influencing government policies, attracting young people into the profession and becoming a lead organisation in the construction sector, raising the profile of engineering with a growing membership whilst opening up different grades of membership to new related professions and specialisations, such environmental engineering and technician engineers

The recently published Strategic Plan, Prepare for the Future” is an ambitious plan to re-align, re-focus and transform the institution to meet modern needs of members and the nation. Its results from an extensive consultation with members detailed analysis of the results and the strengths and weaknesses of UIPE and responds to the new policy for national construction sector to position UIPE to play a key role in sector development. It focuses on 5 strategic areas:
Membership affairs
Capacity of the Institution
Public relations
Research
Student Affairs, and
Collaboration with other professional institutions
Training and Capacity Building Needs

The UIPE Training Programme 2011 – 2016 falls with Strategic Focus number 1;</td></tr>
</table>

Officer) and 1 Accounts and Finance Officer
• Membership from drawn from all forms of engineering
• Current membership (Feb 28, 2011) of 2,677 in total, being:
  - 823 Corporate Members (Fellows & Members)
  - 703 Graduate Members
  - 57 Technologists
  - 88 Technicians
  - 1,000 Student (temporary) Members
  - 6 Honorary Members
• To become a full Member must be a graduate and be pass examination, usually after a minimum of four years training in industry .
• Published new Strategic Plan 2022 – 2016 entitled "Prepare for the Future" on 27th May, 2011
	membership affairs. It provides for increasing membership through improved mentored professional training as well as continuing professional development (CPD). It is fully costed including funding from various sources, some yet to be identified. It includes establishing technical training centres with regional training co-ordination offices.
	
	The currently inoperative registered limited company is an opportunity to develop a commercial entity for training, seminar organisation and publishing, that provides income to UIPE, as happened with Tomas Telford, a wholly owned company of the UK Institutional of Civil Engineers that amongst other activities organises conferences and training events.
	
	The training and capacity building needs consist of:
	
	• Assistance to introduce and provide a responsive programme of career guidance for schools and universities
	• Assistance to strengthen and expand the programme of industrial/ training for students
	• Assistance to strengthen and develop graduate professional training (internship) and further guided learning to prepare for membership assessment
	• Help to develop "technician clinics" to develop technician's and technologists technical and professional abilities, particularly in areas of specialisation
	• Design and train trainers and help to establish a training unit to deliver technical training as part of CPD to enable engineers to keep abreast of developments and increase their knowledge base
	• Assistance to set-up a programme of advanced training to enable experienced engineers to become more expert in areas of specialisation
	• Help to set-up a research support group to utilise local capacity to identify and provide research based solutions to real life problems
	• Provide support to establish a training and research unit headed by the proposed new Projects Manager toset up a research database and coordinate all the research and training

Professional and Business Associations	

Ugandan National Association of Building and Civil Engineering Contracts (UNABCEC)
 	
• Revived in 1993 (after ceasing to function in 1973) when registered as company limited by guarantee , it promotes and protects the interest of membership drawn together from building, civil engineering and construction related materials manufacturers and suppliers
• Member of the Private Sector Foundation Uganda, (PSFU) the Uganda Chamber of Commerce and Industry (UCCI) and African Federation for Construction Contractor's Association. Also sits on the Board of the Uganda Manufacturer's Association and Federation of Ugandan Employers (FUE)
• Governed by Council
• Currently has 167 registered members out of which 70 are paid up, from an estimated total of 800 contractors in Uganda's construction industry
• All contractors who want to get GoU contracts must be registered with UNABCEC.
• Is the principal interface between the construction industry and Government and Donor Partners
• Currently small contractors do not join as feel not adequately catered for.
• Has Secreatriat of 3.5 full time staff
• Has organised past activities and programmes to raise issues and train members, with support from DPs such as NORAD and GTZ, that include:
    □ Occupational health and safety, HIV/AIDS in the workplace including training of trainers
    □ Child labour
    □ Best practice in human resource management
	Background:
	
	Existing ProInvest Project includes the following activities:
	
	• Development of business plan, functional and accessible website and digital membership database with profiles to establish more robust registration system. This was intended to improve the institutional and functional competence of UNABCEC to be able to achieve its mandate.
	• Carried out a study to initiate changes in the procurement and contract related business framework to achieve improved quality and higher quantity of submissions from companies especially SMEs.
	• Studied the current situation to allow for an upgrade of the classification and licensing systems for the road and building contractors and consultants in Uganda.
	• Established a tender/bid preparation support service as well as a claims preparation and contract management support service.
	• Establish a system for training delivery to members so that more members are attracted by value adding and fee generating services provided by the association.
	• Visits to Ethiopia and Kenya to share ideas and benefit from mutual learning
	• Visit to USETEC exhibition in Germany, a purchasing trade fair and contact forum that is supported by RESALE so is a good source for used Technology and Equipment for Construction. Over 500 exhibitors from nearly 30 countries – primarily machinery dealers, renowned manufacturers and service companies. USETEC is both
	Overall output
	
	• A minimum of 3 regulatory issues will be tabled before decision making bodies in 2012 aimed at making the construction sector a more conducive business environment.
	• A more attractive and dynamic website created with digital and broad database developed which is one of the fronts used in information dissemination and collection which is key.
	• Increased number of inquiries on membership especially following the workshops that targeted key issues within the construction sector.

◦ Plant operator training, with funding assistance from GTZ • Beneficiary of funding from the EU through ProInvest programme (ending September, 2011): ◦ to modernise construction; Capacitating East-African Intermediary Organisations in the construction value chain to create a more conducive business environment in the construction sector for active private sector participation and involvement especially SMEs ◦ capacity building benefit 15 Intermediary Organisations 3 countries, Uganda, Kenya and Ethiopia. ◦ runs on a peer to peer co-operation basis with private sector organisations from Germany, Austria and Belgium, ◦ seeks to build the capacities of participants to achieve higher impact in accordance with their mandates: ○ through institutional and functional capacity development of the participating IOs ○ improvement of policy lobbying and public-private-dialogue skills ○ Member services and membership development and ○ regional integration and international cooperation •	One of main benefit from the ProInvest support is an outline to provide a training service on bid preparation and claims and contract management which is at its initial stages. With short programme, sustainability is an issue and additional components are need to build skills and capacity of members, hence the request for further assistance from the CrossRoads project. • Membership of UNABCEC is seen by some in the industry as being a Kampala-based club for the larger more established contractors. There has been mention of forming a small contractor/labour-based contractor's association. This would be unfortunate for the overall small and nascent construction industry and lead to more fragmentation. UNABCEC is cognisant of the fact that many smaller contractors are not yet members and wishes to reach out to them and provide services that will attract and retain their membership. **Training and Capacity Building Needs** • Training and capacity building needs of UNABCEC fall into two main categories: 7 Institutional capacity building of UNABCEC itself 8 Providing skills development service for members *Capacity Building for UNABCEC* • Assistance to facilitate the development of a comprehensive plan for priority needs for training and capacity • Continued support after the ProInvest programme for the development of business plans for UNABCEC • Further support to help UNABCEC strengthen, improve and widen its services to attract more paying members Developing skills of the Secretariat such as: • Organising and facilitating conferences, workshops, seminars and training events • Assistance with designing, editing and publishing newsletters, press releases, research papers and documentation

	• Coaching staff to improve service levels and customer responsiveness • Public relations and managing media relations • Advocacy and lobbying • Seeking additional sources of finance • Monitoring and evaluating training • Marketing *Skills Development for Members* UNABCEC has the concept of increasing competitiveness in the construction industry by supporting the co-ordination, implementation and monitoring of activities aimed at improving performance. Improved competitiveness within the industry will in turn translate into national contractors' getting a sustained and expanded share of works thereby developing the economy at large due to reduced repatriated funds. There are three aims: □ Establish a guarantee fund that will enable national contractors to compete more fairly with international ones □ Develop human resources □ Establish an equitable registration system for national contractors that is recognised in the public procurement procedures to help a limited number of the right contractors tender for appropriate work instead of completely open tendering The following deals with item 2 above, human resource development. Past experience indicted that offering training for members also raises interest and encourages more fims to become members of UNABCEC. Three specific aims are: • Highest priority training need is to train heavy equipment/plant operators. Running

	costs, repair costs are higher with improperly trained operators and efficiency and effectiveness is lower. Many plant operators have not been tested by the Inspector of Vehicles (IOV), the part of the police force that assess and award the appropriate class of driving permit, so are improperly and illegally operating plant. A similar situation pertains to heavy truck drivers • Of the 20 operators trained under the GTZ supported training at the end of 2010, 3 paid off their bonds and are now working in southern Sudan, such is the demand for skilled operators. • The second highest priority training needed is in Construction Site Management (especially road maintenance), that will enable better planned sites working more efficiently and using available resources more effectively • Train trainers in the above and the following so that training programmes can be sustained in the long-term through UNABCEC. • Practical vocational training at all levels for site work, e.g. supervisory training for foreman (forepersons), road maintenance, plant maintenance, setting out, drainage construction, concrete operations, traffic management on and around site, re-gravelling operations etc. • Business training: □ Management development and leadership □ Financial management, including costing and cash flow □ Strategic planning and business planning □ Human resource management and development (including coaching) □ Professional ethics and good corporate governance □ Business development • Project cycle management, especially procurement • Estimating and costing for tendering • Contract management • Claims avoidance and preparation • Project management • Health and safety on site • Environmental management & protection on site
Uganda Commercial Truck Owner's Association	• Not yet met

Private Sector Foundation	• Not yet met
Uganda Association of Consulting Engineers (UACE) • Founded in 1993 with membership of 8 firms. • Incorporated as private company limited by guarantee in May, 2001. • Represents professional concerns and general business interests of member consulting engineering firms covering all aspects of engineering • Have a Strategic Plan 2011 – 2016 • Current membership (June, 2011) 20 firms drawn from consulting engineering firms and individual consultants estimated to total about 50 nationally. • Membership entails the firm's Principals/Directors, and individual members being a Registered Profession Engineer who should be practising as consultants • Two subscription levels based upon annual turnover • Affiliated to International Federation of Consulting Engineers (FIDIC) and member of Group of Africa Member Associations (GAMA), regional grouping of national associations • Mission is to develop and promote consulting engineering industry in Uganda to internationally accepted standards • Governed by 7 elected Member Council • Day-today running by 3 person full-time Secretariat consisting of Chief Executive Officer, Administrative Secretary and Office Assistant. • Activities include luncheons with invited guest speakers, seminars, participation in conferences and meetings an advocacy and lobbying	**Training and Capacity Building Needs** *Awareness Raising amongst General Public, Stakeholders and Communities* • Increase awareness particularly amongst communities neighbouring busy and commercially important roads about basic knowledge and information regarding roads and government plans and expenditure so that so that they monitor, evaluate and call public sector to account for quality, sustainability and use of public funds.. (this fits in with recommended plans to assist civil society groups and road user association to understand better the road planning, budgeting and implementation operations) *Continuing Professional Development (CPD)* Many members firms are small and face many practical challenges relating to lack of resources. There are significant differences in technical and management capacity amongst member firms that can be overcome by a system of knowledge management, information sharing, research and CPD as recognised in the Strategic Plan. UACE wishes to work at the lower levels to attract, develop and retain young professionals to develop and sustain consulting engineering in Uganda. To accomplish this assisiance with designing and delivering training and to train trainers in the following areas is needed: • Management development and leadership • Financial management, including costing and cash flow • Strategic planning and business planning • Human resource management and development (including coaching) • Professional ethics and good corporate governance • Project management • Contract management • Claims avoidance and management • Project cycle management , especially procurement

	• Health and safety on site • Environmental management & protection on site • Training of trainers *Capacity Building of the UACE Secretariat* Improving the Support to help UACE strengthen, improve and widen its services to attract more paying members in such areas as: • Organising and facilitating conferences, workshops, seminars and training events • Assistance with designing, editing and publishing newsletters, press releases, research papers and documentation • Coaching staff to improve service levels and customer responsiveness • Public relations and managing media relations • Advocacy and lobbying • Seeking additional sources of finance • Monitoring and evaluating training
Education and Training Institutions	
Mount Elgon Labour-Based Training Centre, Mbale • established in 1995 by the Ministry of Works, Housing and Communications using financial support from the Nordic Development Fund and curricula support from the International Labour Organisation (ILO). • has benefited from substantial support from DANIDA, with construction of new facilities and technical assistance which is continuing • reports to the Ministry of Works and Transport (MoWT) • institutional reforms mean that future is being	**Background:** • Mount Elgon Labour-Based Training Centre is a public sector training institution. • Apart from the MELBTC, there is no other training facility in Uganda currently offering practical skills training appropriate for civil engineering/road contractors. • Qualifications issued by MELTC are not part of UVQF. With MELTC being the only one of its type in Uganda, to date its certificates are stand alone • There is less emphasis on basic labour-based road construction/maintenance of gravel roads training in the training programme for FY2011/12 with the introduction of training related to the use and application of low cost seals • Conducted a base-line study of small contractors, completed in November, 2010, but not published to date by MoWT. • Currently no further labour-based contractor development training offered

considered including possible option to become self-sustaining training entity • main customer base is the District councils that with de-centralisation are now responsible for district and community access roads. • offers both technical and non-technical training related to labour-based works so able to provide wide support to the District Councils right to assist with their responsibilities • has trained approximately 92 small labour-based contractors, including their owners, forepersons and assistants under subsidised programme to develop private labour-based contractors, many of whom were female. • Contractors successfully completing both theory, model road site practice and also assessment on actual gravel road contract were certified. • Has established training modules in cross-cutting issues such as gender, environmental issues, human rights, workplace safety and HIV/AIDS • Delivers training modules covering business management, such as communication, financial management, tax and insurance, proposals for and sources of finance	(considered to be more due to lack of finance than lack of demand, as courses are heavily subsidised) **Training and Capacity Building Needs** • MELTC is seen more a resource centre to be able to provide more training relevant to small contractors, not only labour-based ones, and also to train instructors in vocational training institutions taking up new UVQF related to civil engineering. road site work • MELTC existing training modules on management and financial management could be adapted and updated to provide training for all small contractors in such areas as general management, access to micro-finance. • Whilst there is currently no published study that indicated the actual demand to labour-based contractor training and site staff, the new Policy on the Development of the Construction Sector includes the application of labour-based technology and promoting further awareness and promoting labour-based technology through seminars and workshops and specifically mentions strengthening and facilitating MELTC to conduct courses so that the minimum value of work executed by labour is achieved as shown in the policy document. • It is suggested that support be provided to MELTC to deliver more small labour-based contractor training and develop further modules to build upon those already established to meet the wider needs of small contractor business management. • There is also a need to provide short refresher training for labour-based contractors to reinforce and upgrade their existing capabilities.
Public and Private Universities • In recent years there has been a growth in the number of private or non-governmental universities in Uganda offering engineering related tertiary education courses. Currently there 19 private universities and and 5 government ones (of which 3 offer specific engineering courses and 3 offer engineering related courses) in Uganda/	**Background:** • There has been a recent growth in non-governmental universities offering engineering and engineering related undergraduate degrees in Uganda. Some have aspirations to introduce masters level degrees. • The tendency is for the younger universities to offer newer alternatives to the older full-time study options available in the more established government universities, such as. part-time, distance learning with a move towards more on-line packages • With a generally less experienced teaching staff, they invite guest lecturers from

• There is an increasing demand for undergraduate course in engineering and also a demand for post-graduate courses, which are generally new or not available in the private universities.
• The following is based upon a random sample meeting with Ndejje University a private institution , founded by the church in Uganda.
  ◦ Ndejje offer a 4-yr undergraduate engineering course in essence based upon the 4-year M.Eng courses in the UK with a common 1st year for all branches of engineering
  ◦ Intake this year is around 60 compared to 25, 4 yeers ago of which 20 due to graduate this year.
  ◦ Private universities attractive as lower entry requirements (8-12 points equivalent to 3 D grades at Advanced level) than government ones where there is fierce competition due to availability of student grants(23 -24 points equivalent to 4 B grades at Advanced level exams). Also Ndejje offer exemptions and upgrades for Higher Diploma holders, whereas, for example, Makerer University does not
  ◦ Typical current annual course fees for an undergraduate engineering degree are about US$ 1,000. Together with living costs this will total about US$2,000 per year
	industry to participate, making the courses more industrially orientated.
	• With the competition for students and generally finding it hard to become self-sustaining on student fees alone (many do not yet receive a government grant) they are keen to develop new income streams, such as short professional in-service courses, part time Masters level courses, and develop more university-based consultancy opportunities rather than as at present, individual staff taking on outside consultancy to augment low salary levels.. Some are less well equipped with respect to laboratories but improving and purchasing new equipment.
	• Some teaching staff are not professionally registered engineers. They have limited industrial experience.
	• There are opportunities to link in with the UIPE programme of graduate training to exchange staff between industry (consultants and contractors with academia so that all parties gain further experience.) Closer links would enhance the possibilies to provide more industrial experience for student.
	
	Training and Capacity Building Needs
	
	• There are opportunities to involve teaching staff, together with outside trainers from industry, to design and deliver short in-service, professional training courses of modular design that can be delivered, for example at weekends. Experience from undergraduate courses conducted at weekends is evidence of commitment and demand for additional skills paid for by individuals
	• There is a desire to forge closer links and collaboration with the newer but well established universities in Europe, for example like Herriot Watt and Napier Universities in Scotland (former polytechnics now established universities whose courses are known for their industrial relevance)
	• The private universities are also interested in entering the higher levels of technical and vocational education related to engineering, but as yet do not appear to be able to provide this education.
	• There are synergies with the intentions of the professional and trade associations in providing technical training for engineers.

Ugandan Association of Private and Vocational Training Institutes (UGAPRIVI)	**Background:** • UGAPRIVI has delegated assessment and certification from DIT for Worker's PAS

• UGAPRIVI is umbrella organisation for private training institutions throughout Uganda. • Role is to lobby on behalf of members and help to build up their capacity. Also offer link to DPs to improve vocational education • Has about 300 fully paid-up members out of some 620 registered vocational training institutions • Some members registered with Ministry of Education. Aim is to help raise standard of those unregistered to become registered • Membership is mixture of institutions ranging from completely privately owned, owned by faith organisations, community-based to enterprise-based. • UGAPRIVI's beneficiary of support from the former German Development Service (DED), now part of GIZ for capacity building measures and the deployment of expert personnel through the PEVOT programme (Promotion of Employment Orientated Vocational and Technical Training) for projects at grassroots and intermediary levels. ◦	(Worker's Proficient Acquired Skills), an initiative to provide low level vocational qualifications. • Worker's PAS: ◦ is a national accreditation for the validation of non formal and informally acquired skills. ◦ is designed to reflect the holder's employment career and recognizes continuous training and lifelong learning. ◦ Validation can facilitate progression in education and training, (re)integration in the labour market, geographical and occupational mobility as well as organisational and personal development ◦ is being implemented by a consortium of key private sector stakeholders led by the Private Sector Foundation Uganda (PSFU) and Swiss contact with support from the EU ◦ It provides a structured record of the skills a holder has obtained during his or her working life through the issuing and maintenance of a form of learning and training logbook (like a passport) ◦ This form of recognition is applicable to people who have worked on constructions sites **Training and Capacity Building Needs** • There are opportunities to work through UGAPRIVI to help train trainers and assessors for vocational qualifications related to civil engineering construction related to road works • UGAPRIVI members (private vocational training institutes) could take up training to provide these skills in those areas that do not require capital intensive equipment (that is for example, not heavy plant operator training). This would support and sustain skills training at crafts level that associations such as UNABCEC and UIPE are not set-up to provide but where their members and the industry need cerfied skills for staff particularly on site
Directorate of Industrial Training (DIT) • Established as a result of The Business, Technical, Vocational Education and Training Act, 2008	**Background:** • The introduction of vocational qualifications is still in its infancy in Uganda. And as yet not fully understand by all in industry and education. However, the

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- DIT role includes setting standards, accrediting training institutions and Assessors and implementation of the Uganda Vocational Qualification Framework (UVQF) that ends later in 2011
- DIT is supervised by the Industrial Training Council who set policy and regulate vocational qualifications
- DIT is the awarding body for vocational qualification but likely that in the future independent Awarding Bodies will delegated this authority
- Vocational qualifications are still young in Uganda and there is limited general awareness among the population about them.
- To date there are 61 Assessment and Training Packages (ATPs) developed for qualification standards. Development of others is principally constrained by budget limitations
- There are moves to establish an independent Skills Authority outside the Ministry of Education that can respond more rapidly to the skills needs of industry
- Once ATPs are established they must be kept up-to-date with developments in industry and technology, which currently is not yet being implemented

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developments made to date have made considerable impact in adjusting training towards the real needs of industry and permitting skills acquired informally to be assessed for formal qualification. It has opened up qualifications to the disadvantaged economically and physically and beginning to break down gender barriers.

- Vocational education has received considerable support from a number of donor partners (GTZ, JICA, Belgium, Swiss, EU World Bank etc.) in some cases like Germany, for some 20 years.
- Past concentration has tended to be more at trades more easily accessible in the informal sector, such as cooks, mechanics, beautician and hair dressing etc. but ATPS have also been developed for building trades. There are virtually no vocational qualifications developed for civil engineering/roads related occupations.

Training and Capacity Building Needs

- DIT are keen to work with the construction industry to develop ATPs appropriate for civil engineering and roads so that the necessary skills can become included in the UVQF and so universally available.
- Training of Assessors and accredited training of trainers is in infancy generally, so vocational institutions will need assistance to identify suitable trainers (probably staff with long experience on site who have an aptitude for communicating skills and passing them on to others) who could be trained as vocational trainers, both inside companies and in vocational training institutions. DIT already have links with UNABCEC in discussion of vocational qualifications so there is some sunergy with the aims of UNABCEC

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Civil Society Groups

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Ugandan Automobile Association (AAU)

Tel: +256 772 366004

- Founded in 1950sas branch of the East African Automobile Driver's Association (EAADA) with

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Background:

- As already stated above under UACE, the long-term sustainability of maintaining improvements in the roads sub-sector is seen as being through non-governmental organisations/civil society groups and stakeholder associations related to roads

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headquarters in Nairobi, Kenya. • break up of the East African Community led to the break up of EAADA and the establishment of AAU as a separate legal entity in 1986.	and transport. • To the left is a list of likely associations that have either been identified by the CrossRoads team or have been mentioned in publications consulted. It is not known if they all are still operative. • This is not an exhaustive list but rather a provisional one s they may well be other relevant organisations as yet unknown to the CrossRoads team. • In the time available to the Training Specialist, it has not been possible to make contact with such organisations, which can be in a subsequent visit. **Training and Capacity Building Needs** • With advocacy, lobbying and public relations being identified training needs of the aforementioned professional and trade associations, it has been assumed that civil society groups could either also have similar training needs or, if already skilled in these areas, be a resource to provide such training. • An allowance has been made in the programme for their participation is such training when conducted for the institutions and associations.
Uganda Private Road User's Association	
First Africa Bicycle Information Office, **Jinja**	
Transport Forum Group, Uganda P. O. Box 20, Kyambogo, 5, Edinburgh Avenue, Kyambogo, KAMPALA Tel 256-41-288312 Fax 256- 41- 286218 Email : paulkwamusi@yahoo.com ckkaira@africaonline.co.ug www. ifrtd.org	

Recommended Capacity Building and Training Programme

Considerations

Although the original terminology used to describe this work was “training needs”, the findings indicate that in fact it there is a need for considerable “capacity building”, that will likely include training, where capacity building is defined as the development of the ability of people and the organisation in which they work to manage their affairs successfully to produce the required outputs. Being internal, capacity development can only be facilitated from outside.

The overriding consideration is that capacity building and training must be demand led, market driven and able to be sustained principally by the private sector.

Whilst several organisations mention establishing a training centre, past international experience demonstrates that entering into fixed training facilities (bricks and mortar) is unsustainable. It usually involves high overhead costs (rent, maintenance and repair) and paying a permanent faculty of staff that with the buildings are often not fully occupied throughout the year.

Most modern training entities attached to professional and trade organisations hire training venues and employ on contract suitable experienced trainers as needed to keep overhead costs down, maintaining a small permanent staff to organise, supervise the training and contract the trainers. There are many underutilised training centres in East Africa that bear testimony to this observation so are often available to hire, sometimes at reduced costs when compared to hotels, so as to provide some income to the owners. They often have superior training facilities compared to hotels.

One important area not mentioned much by the private sector but considered a priority by UNRA is road safety at road works sites. Having safety as part of their Mission Statement, senior UNRA engineers realise that not only do contractors engaged by them, but also their own supervisory staff and consultants need training, particularly in traffic management around sites to apply contractual terms related to safety of the public and road users. There is benefit in public and private sector participation in any training to include UNRA engineers, consultants and contractors to encourage mutal learning and experience sharing.

There is a conundrum with respect to the priority need to train plant and equipment operators. In a developed economy the larger construction companies often have in-house on-job training for operators whose competence is assessed according to established norms and guidelines in accordance with national vocation qualifications. There are often limited public training facilities for such skills particularly due to the high costs associated with repaying the capital investment needed to buy the plant and provide sufficient safe space to learn the necessary driving and operating skills.

This means that in Uganda, the options are:

1. to reintroduce the previous public sector equipment operator training facility,
2. to equip a new private sector operator training facility, or
3. to manage and run privately a publicly owned equipment operator training facility

4. equip and operate a training production unit as a not-for-profit company wholly owned by a trade association

There are advantages and disadvantages in all cases.

1. *reintroduce the previous public sector equipment operator training facility*

a training is not the core business of either the MoWT nor UNRA so will not be a high priority and be subject to the vagaries of public sector budgeting and procedures

b in the past plant was taken temporarily out of operational service for training. Experience shows that this leads to tension as urgent operation needs may arise. It also causes increased costs of servicing and maintenance being operated by trainees, sometimes resulting in equipment unavailability is a part urgently needs replacement and is not held in stock and must be procured through public sector procedures.

c it is preferable to have dedicated equipment for training to provide normal availability. However, in the event of a serious breakdown, alternative plant may not be available for hire and brings in additional unbudgeted costs. Using the public sector operational plant may mean that alternative equipment could be provided but subject to operational demands on site.

d experienced senior operators were used as instructors so were taken off active duties to train, some without the necessary pedagogical skills. This resulted sometimes in their unavailability for training due to urgent operational requirements back at their place of work.

e there is benefit in using very experienced operators as trainers if properly trained as trainers with their skills updated for the latest plant.

f there is available secure and safe space for learning the initial steps in equipment operation and past experience of conducting operator training.

2. *equip a new private sector operator training facility*

a using DP funds to provide equipment and plant to the private sector may not be possible, depending upon the donor policies and government to government protocol

b wholly owned training company owned by a professional or trade organisation successfully operate in other countries but usually with much less capital investment

c for sustainability, fees charged for training must cover depreciation and replacement costs as well as running costs of the plant, in addition to covering the costs of instruction and the overheads of the training institution. Therefore they will be high and perhaps out with the reach of companies and individuals so high risk of unsustainability.

d access to training must be universal, but could be at reduced fee rates for members of the trade organisation conducting the training.

e plant and equipment for training is unlikely to be totally occupied in training so there is a possibility to earn revenue by hiring out for contractors, however this cause tension between training and revenue earning.

f identifying instructors with the right experience may be problematical as training is currently not seen as a high profile job and earnings may be higher working on site

3. *manage and run privately a publicly owned equipment operator training facility*

a little experience in Uganda of such an public private partnership arrangement so will take time to set-up, arrange and agree operational procedures and legal contractual arrangements
b limited current capacity in the private sector to operate such a facility successfully so any managing entity would require considerable training in running a training business
c similar problems of likely high fee rates for training as above if depreciation and plant replacement costs to be met.
d Possible conflict over use of facilities as the Luwero site is an operational station for UNRA and its force account work

4. *equip and operate a training production unit as a not-for-profit company wholly owned by a trade association*

a could operate in effect as a contractor but with training as core business, being paid for work so producing a significant income stream that would cross-subsidise the costs of training and so reduce training fees
b opportunity to generate modest profits that could be re-invested in the training production unit to provide additional facilities and plant
c if required to tender for work, special conditions would need to apply as unlikely to be able to compete on price and time as there will be lower productivity rates and higher operating cost due to training functions.
d opportunities to train on-job all cadres of site staff including site managers
e would require cadre of trained trainers experienced in working for contractors
f no need for any special facilities for theory sessions as could use site offices paid for under the contract
g would require careful management and considerable capacity building to ensure success and sustainable with strong oversight by the owning association.
h could start operations modestly as, for example, a re-gravelling unit with limited plant and training limited to plant operators to assess experiences and learn before expanding into more training and bigger contracts
i Would need to have contingency plans, as for any contractor, in case of serious breakdowns, for replacement plant.
j could transform over time into privately run national construction training entity for equipment orientated training

On balance option 4 has most advantages but will take time to establish as a functioning entity. An interim measure could be to use the Loweru site, UNRA force account equipment and UNRA operators with inputs from an experienced outside trainer to upgrade existing skills, covering the costs of equipment usage and maintenance.

Recommendations

The following includes initial budget estimate for the recommendations. With the process consultancy approach, these will need to be revised and updated during subsequent monitoring and evaluation to take account of the dynamic situations and changing needs

Item No.	Recommendation	Outline	Estimated Budget Costs (£)
1	Conduct rapid labour needs survey of the national construction industry with respect to road works to ascertain current requirement and forecast future needs	Contract two national HR experts for one month to conduct study, present initial findings to stakeholder workshop, take into feedback and prepare final report	20,000
2	Develop and conduct priority technical training courses	Possible to make quick impact by conducting high priority short but intensive training for mutual benefit of both public and private sectors to raise visibility of CrossRoads project, and demonstrate delivery. This would be possible using available national expertise that has already been identified such as road safety at sites of road works, a likely 3 day course including site visit and demonstration of signage. It would entail co-operation with UNRA for access to local sites and use of site safety equipment (reflective jackets etc.) and temporary road signs etc.	10,000
		Other courses could be delivered soon after in the priority areas of project management, construction site management and contract management, and conducted once with possible need to involve expert experienced trainers with practical industry experience from outside Uganda. Allow £12,000 per course to include development/customisation, international travel, reproduction of training materials, purchasing of specialised training equipment such as projector, screen, videos and subsistence venue package for	36,000

Item No.	Recommendation	Outline	Estimated Budget Costs (£)
		participants.	
3	Identify future trainers, develop a schedule of technical and business training to match the identified training needs and train the future trainers. Training will not always be formal off-job classroom sessions, but should include the development of coaching skills to provide support on-job for the technical subjects.	The initial training courses will also be repeated in addition to new training events. These will include post-training support on-job and repeating training events with supervised and supported hand-over to newly trained trainers	550,000
4	Development of vocational qualifications for road works.	Production and of Assessment and Training Packages (ATPs) for 6 occupations, involving facilitating 3 workshops involving industry and DIT per ATP at a cost of £10,000 per ATP	60,000
5	Train assessors/instructors in construction BTVEQs	Complement to current JICA supported programme to train 5 instructor/assessors, approximately a two month programme	10,000
6	Contribution towards the costs of UIPE capacity building and training programme	UIPE estimated annual costs are £261,000.	100,000
7	Capacity building for UNABCEC and skills development of Secretariat	Provision of a series of three x three week capacity building interventions to complement that already provided under the ProInvest programme and extend development into the identified areas of need. UNABCEC is possible in most need of this support to help provide a more responsive and coherent institutional approach for the construction industry and reach out to small contractors to provided them with appropriate services to attract and retain their membership	35,000

Item No.	Recommendation	Outline	Estimated Budget Costs (£)
8	Capacity building for UACE and skills development of Secretariat	Provision of two by three week capacity building interventions after which the situation and improvements will be assessed.	25,000
9	Provision of unsubsidised labour-based contractor training events at MELTC including on-site assessment and certification	Training for a further 50 labour based contractors at £3,500 per contractor. This is a one-off intervention to help maintain the skills base. Any future training must be designed to be delivered in a way that is more affordable and reduces time away from work	175,000
10	Refresher training for existing labour-based contractors	Unsubsidised refresher training for 50 contractors at £2,000 per contractor. This is a one-off intervention to boost labour-based contracting capacity. Any future training must be designed to be delivered in a way that is more affordable and reduces time away from work	100,000
11	Support for civil society organisations	Training in advocacy, public relations, media management and lobbying to include participation by the professional and trade associations. Allow	20,000
		Sub-total	1,141,000
12	Establishment of training production unit and mobile mechanical workshops	Motor grader 1 @£152,000: wheel loader 1 @ £168,000, dump truck 1 @, water bowser 1 @r, motor roller 1 @ : Pick-up trucks 2 @ : Hand tools @ : Fully equipped mobile workshop for heavy equipment maintenance @ Training instructors : Training instructors to be assessors	

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Annex 2: Documents Reviewed and Consulted

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Bos, Erwin; Koster, Freek & Mulder, Frank	Jan, 2003	The Bicycle Sector in Uganda; An Overview	Expertise Centre for Sustainable Development, University of Amsterdam, The Netherlands	*www.jugendhilfe-ostafrika.de/.../Overview%20bicycles%20Uganda.pdf*
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Museveni, Yoweri Kaguta	Dec, 2008	Advancing Investment Policy Reform in Africa Speech by H.E. Yoweri Kaguta Museveni, President of the Republic of Uganda at the NEPD/OECD Africa Investment Conference	Kampala, Uganda	