CONSTRUCTION BANK IN A DEVELOPING COUNTRY: THE WAY FORWARD

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For some decades, efforts have been made in many developing countries to enhance small and medium scale contractors' access to finance. The impact of programmes has been affected by several interrelated problems. This paper focuses on the experience of the Bank for Housing and Construction (BHC) of Ghana. Its ineffectiveness could be attributed to the initial conceptualisation of the programme. The need for contractors to establish their own bank is eminent. However, should be made to reform the contractors association if it was to play a role in the proposed bank. Other factors that need consideration is contractors' access to work and an up-to date conditions of contract, and a mechanism to sway contractors form malpractices. .

Keywords: developing countries, finance, Ghana, small contractors.

INTRODUCTION

The Bank for Housing and Construction (BHC) was one of several development banks established in Ghana to provide financial services for specific sectors of the national economy. Consistent with many programmes in developing countries (Bentall *et al.*, 1999), the BHC concentrated on providing contractors with plant and equipment so they could undertake specified projects (Kakibu, 1993). However, the programme suffered from several interrelated problems: contractors' poor managerial and technical capabilities, delayed payments, high inflation rates, unscrupulous behaviour by some contractors and programmes managers all resulted in defaults in loan repayment (Eyiah and Cook, 2003).

The ineffectiveness of BHCs could be attributed to the initial conceptualisation of the programme when one takes into consideration international best practice criteria for lending to small and medium enterprise. First, affiliated institutions and organisations that could have helped provide a range of services to address the varying managerial and technical needs of contractors were excluded from the programme. A second shortcoming, or perhaps more aptly missed opportunity, was the rejection of the request by the contractors association to be involved in the delivery of the programme (Ofori, 1980). Being in close collaboration with contractors, the association could have helped in determining other support needs of contractors. It could also have served as an avenue to develop an information bureau about contractors, which could have help in determining their creditworthiness. Thirdly, the decision to embark on the provision of plant and equipment without involving contractors in their selection is questionable, as the beneficiaries might have had all kinds of consideration (alternative use of equipment, prior experience, spare parts availability, maintenance skills, resell value) to wish to acquire certain brands of equipment (Rademaker, 1999). Furthermore, the objective of the programme was government's effort to maintain the

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national road networks, and to help alleviate social tensions resulting from the adoption of the Structural Adjustment Programmes (Kakibu, 1993). Thus, assisting contractors was a secondly objective. It is possible, therefore that plant and equipment, at that period, was the optimum solution to their financing problems, and that only a thorough needs assessment could have established their financing needs.

The Ghana Real Estate Developers Association (GREDA) has appealed to the government to re-introduce a special bank for construction. Its president reckons “the bank for housing and construction will enhance the work of GREDA and bring the prices of housing down considerably” (Accra Daily Mail, 2002). The question is how best could a future programme be sustained?. This is the subject matter of this paper.

TOWARDS AN INTEGRATION

Four main factors are identified as the reasons for difficulties small businesses face in obtaining finance from established sources: risk of transaction, cost of transaction, contract enforcement difficulties and lack of information to appraise applications (Eyiah, 2001). These factors do not exist in isolation, but interrelated, which make it necessary for an integrated approach to be adopted if financing programmes for contractors are to be successful (Lewis, 1953; Ofori, 1980; Hajaar, 1989; Hammond and Odei, 1995).

The contractors association is viewed as a body through which the financing problems of contractors could be addressed (Miles and Ward, 1991; Rademaker, 1999; Larcher and Miles, 2002). Miles and Ward (1991) suggest that the association should foster links with the respective banks in order to identify which strategy works for both parties. Larcher and Miles (2000), on the other hand, opined that if the banking establishments would not lend to contractors the latter should establish their own bank. Eyiah’s (2001) model takes into consideration affiliations to the construction industry: the contractors association, construction ministries; universities, private management and construction consultants, and research centres are all considered vital agents for an effective delivery of financing programme for contractors.

Eyiah and Cook (2003) investigate the financing practices and contractors in Ghana and gauged their opinion on how best future financing programme could be improved. They found that despite uncertainties in the availability of jobs, contractors were more interested in purchasing plant and equipment rather than hiring them. This gives the impression considering the availability in the financial market of several financing instrument, that either hiring conditions were unfavourable, and hence unattractive to contractors, or they were not well informed about their availability. Delayed payment was the severest factor constraining the financing of contractors. Though provisions are made in the contractual arrangements for some measure of legal redress, individually, contractors are reluctant to take such cause of action, as this could damage their reputation with respective client and affect their chances of future projects (Miles and Ward, 1991; Eyiah *et al.*, 1998). The second most severe constraint was the inability to make profit margins on projects. There was an indication that the problem of lack of continuity of work persists, which reinforces the fundamental argument that this needs to be addressed if future programmes are to be successful.

Eyiah and Cook (2003) reported that the majority (67%) contractors would want the contractors association to be involved in financing programmes. Those who felt it should not be involved indicated that it was not well organised, and or ineffective. An overwhelming percentage (87%) of the respondents were of the opinion that contractors should establish their own bank. The majority (36%) stated that contractors should run it alone. Only 8% felt contractors should not be involved, while 5% were of the view that it should be run by only the government. Some of the respondents who felt there was no need for a contractor's bank were of the view that existing banks should be encouraged to lend to contractors. Some indicated that their financing problems were due to interest rates, and the nature of collateral they were required to provide. Three contractors indicated that despite offering their homes as collateral they were refused loans.

THE WAY FORWARD

The contractors association should be supported, by interested donor agencies, in areas such as office equipment and staff development and training. A unit within the association could be responsible for disseminating available results of previous research in the most appropriate manner to contactors, and help to devise and develop construction management techniques specific to small contractors' operational environment. It could also offer advisory services on construction related subjects such as financial management, personnel management, estimating, tendering, and claims management. Legal expertise within the team could argue the case for a collective group of contractors on issues such as delayed payments by clients.

The Management Development and Productivity Institute (MDPI) could be encouraged to provide advice on aspects of management such as marketing, personnel management accounting and banking. It would be appropriate to establish a well-equipped construction unit within the institute. A cost effective approach would be to incorporate the National Services Scheme into the programme, where construction graduates from the Kwame Nkrumah University of Science and Technology (KNUST) and the various polytechnics could be posted to the units and given the initial training to assist contractors. The role of Private Business and Management Consultants, and Management and Accounting departments of the main universities would become hugely important, particularly, where contractors are located and operate in regions and town not within the immediate vicinity of the MDPI. These supporting partners would follow programmes drawn up by the MDPI.

The Ministry of Works and Housing (MOWH) and the Ministry of Roads and Transport (MRT) and their respective agencies could assist contractors on technical issues. Staffed units within these bodies could provide advice such as estimating, tendering, claims, valuations, construction programming, waste management, plant and equipment scheduling and in-depth coaching on the conditions of contract. Being the agents through which the major client (government) commissions its projects, they should be able to inform contractors about budgeted projects and their availability. Other agents, in this respect, could include Building Technology, Architecture, Civil, and Mechanical Engineering departments of the KNUST, and the development planning units of the various universities.

There would be the need to undertake a periodic survey of contractors, and the construction industry in general. Areas of investigation could include identification of problems and needs of contractors with respect to management, manpower, market, procurement and government policies. Other areas can be materials, plant and equipment, and property development industry. The results of investigations could be published as pamphlets and construction news and gazette, and used in updating programmes. They could also help in identifying new profitable investments and opportunities, in light of changing economic condition and client taste, to the potential of each group of contractors. The Building and Road Research Institute (BRRI) would be the most appropriate institution to undertake such task, as it already acts as an intermediary between contractors and the MOWH and MRT, and the government consults it in formulating construction policies. It also has units that conduct surveys on various aspects of the construction industry. Final year students of the departments of civil engineering and building technology could also be encouraged to undertake projects works related in these areas.

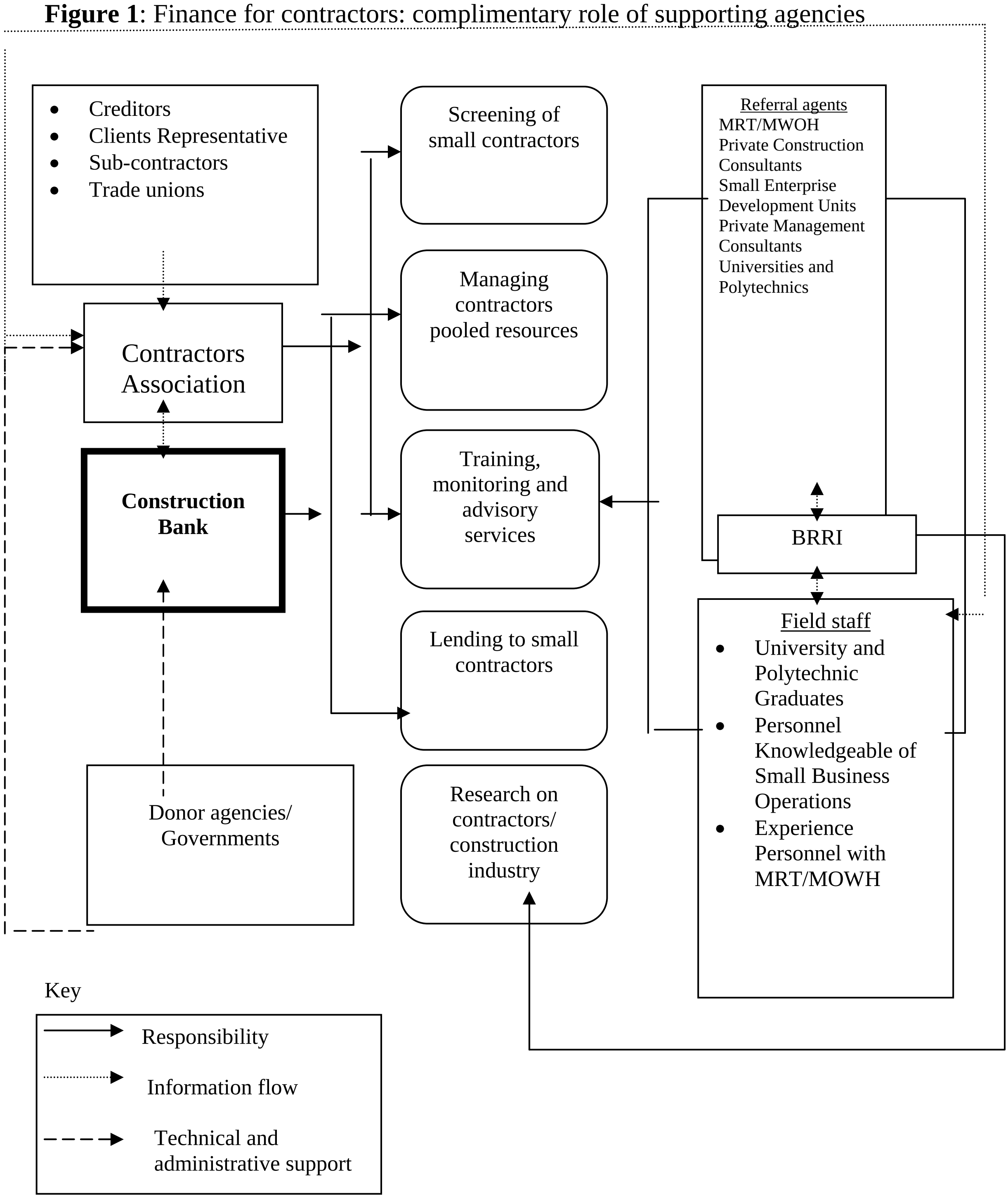
Field staff could assist on issues ranging from setting up of construction projects to the preparation of final certificate preparation. Obviously, assistance required would vary among different groups of contractors. The involvement of field staff would, therefore, be dependent on the type and nature of projects contractors are involved and, more importantly, on their managerial and technical know-how. Issues identified by field staff while performing their duties could be fed into programmes of the respective agencies.

Many small contractors possess plant and equipment in excess of what is required for registration (DMJM and GHANAXIM, 1994), but have shown gross shown ineptitude in their management (Eyiah and Cook, 2003). This could be an avenue for the programme to generate internal income, while at the same time improving the cash flow of the affected contractors. The programme could identify and encourage contractors who possess important plant and equipment to pool them under the management of a team of expertise. The items can then be rented out to contractors who require them at a given point in time. Participating contractors would have first hand access. A percentage of profit accruing could be allocated to programme funds, another percentage reinvested in the purchased of new and different fleet, and a third shared among participating contractors based on their contributions. Other sources of revenue could include application fees, to help cover the upfront time investment with applicants; annual membership fees, to offset the cost of monitoring and routine site visits; and interest rates, dependent on technical assistance offered beneficiaries.

The diversity of managerial and technical support would provide a platform for contractors, with time, to attract lucrative projects on a competitive basis. Other avenues that could be explored to facilitate access to work are subcontracting and joint ventures. Training programme and seminars could be used as forum to create the awareness among contractors of the potentials of subcontracting and joint ventures in addressing their marketing problems. It would be appropriate for an intermediary, serving as a broker, to help foster such development. The contractors association, in collaboration with field staff, could identify potential contractors who would want to enter into such ventures. At the foreign level, multi-national construction companies that have experience with and interest in developing small contractors could also to be identified and invited into the country. The inadequacy of the prevailing *conditions of contract* to the operations of many contractors is an issue that need consideration if the programme is to be successful.

The most important aspect for an effective programme would be for these services to be co-ordinated such that they provide a consistent programme that is directed towards the overall development of small contractors. A possible development and promotional programme is that depicted in Figure 1.

Figure 1: Finance for contractors: complimentary role of supporting agencies



Based on Eyiah (2001)

The contractors association plays a vital role of generating information from all concerned, which could enable it screen and monitor contractors. The BRRI, responsible for research, plays a complementary role with referral agents and field staff in offering training, advisory services and monitoring. Outreach and scale need to be dearth into at the research and methodology stage of the proposed programme. Two main issues that should be considered are centralisation and cost-effectiveness. That is, would contractors from different regions and operating in various towns borrow from a centralised bank? One would expect that branches could be established at strategic regions and towns to cater for this problem. However, would such an approach be cost effective considering the numbers of contractors that might want to participate? This potential setback could be addressed by diversifying client base of the loaning aspect of the programme to include affiliates who have demonstrated entrepreneurial skills, and have achieved significant success supplying goods and services within the industry.

An alternative approach, if outreach and scale, and other factors were to hinder the establishment of a contractor's bank, would be to encourage existing commercial and development banks, as suggested by some respondents in the study by Eyiah and Cooo (2003), to lend to contractors. In this respect, specific branches could be established to deal with applications of construction firms. As suggested by Eyiah, it would be appropriate to develop a system to wean beneficiaries from the programme after a considerable period of time when substantial support has been provided based on recommendations of field staff, so they could apply for loan through the conventional banking system.

CONCLUSION

The provision of finance alone will not enhance the effective participation of contractors in the construction industry. Programmes would be effective, in terms of repayment and impact, if finance was provide simultaneously with other support programmes. The government and interested donors should support the reformation of the contractors association to enable in participate effectively in future programmes. The Management Development and Productivity Institute, the Ministries of Construction and their agencies, the university and polytechnics, and the Building and Road Research Institute could all play important role in the overall development of contractors. Programmes should aim at improving access to work and encouraging contractors to pool their resources together and should stress on the review of the conditions of contract.

Since many financing programmes for contractors in developing countries bear similar characteristics to that of the Bank for Housing and Construction of Ghana, it is assumed that with consideration to the environmental setting, lessons could be drawn from the suggestion offered in this paper for improvement in their programmes.

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