

VI-14 Problems faced by Nepalese Construction Industry and those Counter Measures

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Introduction

Construction industry is one of the important industries that plays important role for the development of a country. Like in developed countries, construction industry can contribute to gross domestic product significantly and generate more employment opportunity in developing countries. In Nepal, construction industry was identified as a priority industry after the implementation of the first development plan in 1956-1957. His majesty's government of Nepal has categorized construction business under service industry. Industrial Enterprises Act 1974 has made a provision for the registration and classification of contractors (CITC 2002). Contractors, in Nepal, are classified under four categories (A, B, C and D) depending upon their overall financial and technical capability. The law has also stated the contract size in which the different class of contractors can participate. Construction industry is contributing around 10 percent to GDP of the country and is second to the agriculture. Likewise, the construction industry is the second largest employer of the country.

However, this industry that plays major role in the development of Nepal has been facing some problems which need to be addressed for the sustainability of the industry and country's development as well. The major problems which need due attention are

- Procurement practice
- Management
- Modernization
- Quality control system
- Transparency

Procurement Practice

This is one of the major areas in which attention of all concerned stakeholder in connection with construction industry must attract in right first. Time and cost overrun, and inferior quality of works are often observed in public works in Nepal. The concerned stakeholders should improve project execution and management practice to deliver the facility without delay, cost overrun and with expected quality. Construction industry professionals often comments that present practice of tendering and contract award procedure is far from satisfactory. The selection procedures of consultants and contractors are not fair and consistent. The contract documents, which are in use, are not equitable to the parties involved in construction. Until now, there is no separate procurement law for the procurement of works, goods and services. The Financial Administration Regulation (FAR), however, provides some provisions which are not sufficient for the procurement of works, goods and services. In some cases the contract clauses conflict with the provision of FAR which consequently result in late and inconsistent decision. The traditional Design-Bid-Build type of contracting system has been still in use in public works. Generally, it takes considerable time from project preparation to the execution. During that period costs of material and other resources are usually escalated. In Local Competitive Bidding (LCB), the price escalation clause is not generally incorporated in the contract. Contractors are supposed to bear all the escalated cost of material, equipment and labour at their own resources. This practice of contracting is not fair to the industry.

The procurement procedure can be made consistent, fair and transparent by the introduction and enactment of appropriate procurement law, standards and guidelines. The price escalation clauses of the contract documents also need proper amendment to provide fair opportunity to the industry stakeholder.

Management

The Industrial Enterprises Act of Nepal does not demand any related qualification and experience for the manager/proprietor while registering an organization. It is found that many of the construction companies are family owned and the managers do not have any technical and managerial background. Due to that it is often found poor construction management during the execution of the project. Now the importance of management has been realized and some companies (but not all) who can afford have started to hire qualified people at the management level. Moreover, there are no any training centers that can provide the practical skill needed for the management of the construction projects.

Modernization

The construction industry has to modernize to cope with the recent development in technology and management. Database should be developed to review the past performance and provide feedback for future works. There are no any databases regarding the construction cost indices and construction material price indices even in the Ministry which is responsible

for the monitoring of the construction industry. It is difficult to analyse and evaluate the performance of the industry without baseline database.

Mechanization in the construction is an essential step for modernization. Like other developing countries, the government is the prime customer of the construction industry in Nepal. The work load in construction has been fluctuating because of poor economic condition of the country. Contractors are reluctant to invest in plants and equipment unless one has continuous work because of high interest rate and collateral required for a loan. Government should assist the contractor to provide soft loan for mechanization or establish equipment-leasing center to provide sufficient plants and equipment as and when required.

In Nepal, a contract is awarded to the lowest bidder. The concept of lowest bid is one of the problems in modernization of the industry. Contractors are reluctant for any innovation in technology because the lowest bid does not always give return to the innovation and quality. The contract awarding system should be revised to cope with the development of technology and management.

Quality control system

Neither executing agency nor the contractor has been furnishing formal quality control procedure for the execution of a project. The quality control depends on mere supervision of executing agencies' supervisors that often varies from person to person and sometime results in conflict between contractor and owner. Like in Philippines, the government's engineers are responsible for the assurance of quality of works. Contractors are dependent on employers' engineers/technicians for the quality of works. The authors argue that not only the employer's engineers are responsible but also the contractors are liable to supply quality works and services. The performance of Contractors should, therefore, be improved to help make them self-dependent and provide quality works and services. Also, construction safety has not been realized seriously in local construction industry.

Transparency

Poor qualities of works are often found especially in public works in Nepal. Present practice of project procurement and execution, poor performance of local construction industry are the main reasons for inferior quality of public works. Unclear and inconsistent methods of selection of constructors and quality control procedure not only resulted in poor quality of works and services but also provided room for malpractices. The contractors often accused the employers of favouritism in contract award and quality of works. The tendering and contract awarding system and quality control procedure should be made clear and transparent to all concerned to develop responsible and accountable construction stakeholders.

Measures and Concluding Remarks

Database of construction cost and construction materials prices should be developed to provide base line for performance measurement and improvement. It is difficult to develop common database since many executing agencies have been involved in procurement and execution, and often reluctance on the part of management is observed to see outsiders assessing and evaluating their own database and performance. Therefore, one-door (centralized) procurement system should be introduced to create common database and consistent procurement practice. Present practice of quality control by mere supervision of employer's supervisors should be changed and develop quality control manual and implement accordingly. Introduction of *third party audit* would help ensuring the quality of works. Training is essential for the continuous improvement. Regional training centers should be established to provide opportunity for the industry professional to acquire practical skill from experienced people. Training facility should be provided throughout a year. Construction financing against collateral system should be updated. The contract itself can be taken as collateral for a loan after contract agreement is made. The industry can be modernized by providing technical and financial assistance to the constructors. Modern technology can be introduced to the industry through joint venture with foreign international companies. Soft loan to the contractors could be a motivation factor for mechanization of the industry. The registration procedure of a construction company should be updated. Engineering and/or management degree for the proprietor / manager of a company should make a minimum requirement for the registration of a company so that better management can be expected. Fair and equitable contract clauses will encourage the constructors for innovation. Price escalation clause should be incorporated to all LCB contracts. Procurement law, standards and guidelines for the procurement of works, goods and services should be enforced for consistent and transparent project implementation.

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